X-1530

FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING JULY 2, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 4			
The Lewis Bank & Trust Company, Upper Sandusky, Ohio.	$ 150,000	$ 75,000	$ 871,693
DISTRICT NO. 8			
Crittenden County Bank & Trust Co., Marion, Arkansas.	275,000	75,000	2,589,803
DISTRICT NO. 11			
First State Bank, Matador, Texas.	25,000	12,500	403,610
DISTRICT NO. 12			
The Peoples Bank, Sacramento, Calif.	800,000	99,000	7,920,979

MERGER:

The Logan Trust Company, Philadelphia, Penna., has merged into the Fidelity Trust Company, Philadelphia, Penna.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING JULY 9, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 5			
United Loan & Trust Co., Lynchburg, Va.	$ 300,000	$ 200,000	$ 1,655,840
Petersburg Savings & Trust Co., Petersburg, Va.	1,000,000	100,000	6,290,654
DISTRICT NO. 10.			
Stockgrowers Bank, Evanston, Wyo.	50,000	35,000	714,265
DISTRICT NO. 11			
First State Bank, Leakey, Texas.	25,000	-- ---	71,809
Bank of Commerce & Trust Co., Mercedes, Texas.	50,000	5,000	187,045
Merchants State Bank, Port Arthur, Texas.	100,000	40,000	1,705,708
Guaranty State Bank & Trust Co., Waxahachie, Texas.	200,000	15,000	1,640,670
DISTRICT NO. 12.			
Mercantile Trust Company, San Francisco, Calif.	4,000,000	3,000,000	(a)- --- ---

(a) Amount not available.

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FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING JULY 16, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

DISTRICT NO. 6	Capital	Surplus	Total Resources
Wartrace Bank & Trust Company, Wartrace, Tenn.	$ 25,000	$ - - - -	$ 47,949
DISTRICT NO. 7			
First State Savings Bank, Mount Carroll, Ill.	50,000	50,000	636,997
DISTRICT NO. 10.			
Uinta County State Bank, Mountain View, Wyo.	40,000	4,000	146,717
DISTRICT NO. 11.			
The Celina State Bank, Celina, Texas.	35,000	7,500	248,333
State Bank & Trust Company, Houston, Texas.	200,000	- ---	2,495,286
Citizens State Bank, Maypearl, Texas.	25,000	15,000	241,642
First State Bank, Roaring Springs, Texas.	25,000	15,000	189,192
Central Trust Company, San Antonio, Texas.	1,000,000	150,000	9,880,515

WITHDRAWAL:

The Lincoln County Bank, Merrill, Wisconsin, has withdrawn from membership.

VOLUNTARY LIQUIDATION:

Scandinavian American Bank, Astoria, Oregon.

CONSOLIDATION:

The Savings Union Bank & Trust Company and the Mercantile National Bank, San Francisco, California, have consolidated under the name Mercantile Trust Company, San Francisco.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF
CAPITAL AND SURPLUS:

Citizens National Bank, Baltimore, Md.
Commercial National Bank, Sherman, Texas.

FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING JULY 23, 1920.

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ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 3.			
Northeastern Trust Co., Reading, Penna.	$250,000	$ 25,000	$ 688,937
DISTRICT NO. 6			
Peoples Bank, Carrollton, Ga.	60,000	27,000	594,065
DISTRICT NO. 8			
Bank of Russellville, Russellville, Ark.	75,000	37,750	585,607
Cass Avenue Bank, St. Louis, Mo.	200,000	50,000	3,368,836
DISTRICT NO. 11			
Farmers Guaranty State Bank, North Zulch, Texas.	25,000	-- ---	158,657

CONVERSION

The Northern Savings Bank, Fargo, North Dakota, into The Northern National Bank.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF
CAPITAL AND SURPLUS:

Lincoln Trust Company, New York City.

FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING JULY 30, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM.

DISTRICT NO. 6.	Capital.	Surplus.	Total Resources.
The Bank of Pittsview, Pittsview, Ala.	$ 25,000	$ 2,500	$ 139,966
DISTRICT NO. 8			
Monroe County Bank, Brinkley, Ark.	50,000	5,000	322,210
DISTRICT NO. 9.			
Farmers & Merchants State Bank, Eureka, Montana.	25,000	13,000	451,388
DISTRICT NO. 11.			
Dallas County State Bank, Dallas, Texas.	250,000	105,000	1,613,411
Farmers State Bank, Georgetown, Texas.	50,000	50,000	666,658
DISTRICT NO. 12.			
Security Trust Company, Bakersfield, Calif.	500,000	220,000	7,129,622

CHANGE OF NAME:

The Fidelity Trust Company, New York, N. Y. has changed its name to the Fidelity International Trust Company.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF
CAPITAL AND SURPLUS:

Maryland Trust Company, Baltimore, Maryland.

FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE WEEK ENDING AUGUST 6,1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM.

	Capital	Surplus	Total Resources
DISTRICT NO. 2.			
Bank of Blasdell, Blasdell, N.Y.	$ 30,000	$ 10,500	$ 41,449
DISTRICT NO. 3.			
Oxford Bank of Frankford, Philadelphia,Pa.	250,000	55,000	1,898,020
DISTRICT NO. 4.			
American Trust & Savings Bank, Middletown, Ohio.	100,000	20,000	2,283,004
DISTRICT NO. 7.			
First Trust & Savings Bank, Rock Island, ILL.	100,000	25,000	554,198
Farmers & Merchants State Bank, Seneca, Wisconsin.	25,000	15,000	535,862
DISTRICT NO. 10.			
First Bank of Okarche, Okarche, Oklahoma.	50,000	15,000	610,683
DISTRICT NO. 11.			
First State Bank, Mathis, Texas.	30,000	16,000	137,081
DISTRICT NO. 12.			
Rideout Bank, Marysville, Calif.	250,000	308,930	5,843,632
Farmers State Bank, Tetonia, Idaho.	25,000	2,500	114,875

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS.

The First National Bank, New Haven, Connecticut.

FEDERAL RESERVE BOARD ANNOUNCEMENT FOR THE
WEEK ENDING AUGUST 13, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

DISTRICT NO. 5.	Capital	Surplus	Total Resources.
State Bank of Kenbridge, Kenbridge, Virginia.	$25,000	$ 8,000	$ 245,424
DISTRICT NO. 11.			
First State Bank, Wills Point, Texas.	100,000	35,000	624,830
DISTRICT NO. 12.			
Lincoln County State Bank, Davenport, Washington.	50,000	10,000	561,289

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 20, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 3.			
Peoples Bank of Philadelphia, Philadelphia, Penna.	$200,000	$25,000	$3,775,508
DISTRICT NO. 7.			
Taylor County State Bank, Clearfield, Iowa.	25,000	5,000	173,919
DISTRICT NO. 12.			
Bank of Haines, Haines, Oregon.	25,000	5,000	338,682

WITHDRAWAL:

The Elmhurst State Bank, Elmhurst, Illinois, has withdrawn from membership.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING AUGUST 27, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 7.			
Greenfield Savings Bank, Greenfield, Iowa	$30,000	$5,000	$404,159
Van Wert State Bank, Van Wert, Iowa	25,000	25,000	451,761
DISTRICT NO. 12.			
British American Bank, San Francisco, Calif.	1,000,000	10,000	3,225,809

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 3, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 7.			
State Bank of Cowden, Cowden, Illinois	$25,000	$10,000	$333,543
DISTRICT NO. 11.			
Texas State Bank, Canton, Texas	50,000	25,000	257,300
First State Bank, Kaufman, Texas	100,000	80,000	655,865
Woodville State Bank, Woodville, Texas	30,000	-	213,402

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF EXCHANGE
UP TO 100 PER CENT OF CAPITAL AND SURPLUS.

Dallas National Bank,	Dallas, Texas
The First National Bank,	Los Angeles, California
First National Bank,	Chattanooga, Tennessee
Baltimore Commercial Bank,	Baltimore, Maryland

CHANGE OF NAME:

The Citizens Bank, Blackstone, Virginia, has changed its name to Citizens Bank and Trust Company.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 10, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 1.			
Sanford Trust Company, Sanford, Maine,	$100,000	$25,000	$1,274,113

WITHDRAWAL:

The North Side Savings Bank, Chicago, Illinois, has withdrawn from membership.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

The Merchants National Bank, Los Angeles, California.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 17, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 1.			
Exchange Trust Company, Boston, Massachusetts	$1,000,000	$1,000,000	$18,221,402
DISTRICT NO. 3.			
Peoples Trust Company, Tamaqua, Penna.	125,000	40,000	930,496
DISTRICT NO. 5.			
Peoples State Bank, Inc., of Galax, Virginia,	25,000	18,700	329,425
DISTRICT NO. 10.			
Oakland State Bank, Oakland, Nebraska,	25,000	10,000	410,640
DISTRICT NO. 11.			
First State Bank, Celina, Texas,	50,000	40,000	471,496
Guaranty State Bank, Hedley, Texas,	25,000	12,500	131,109
DISTRICT NO. 12.			
Bank of Ephraim, Ephraim, Utah,	50,000	25,000	744,533

CONVERSION:

The Metropolitan Bank, Seattle, Washington, has been converted into a National Bank.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING SEPTEMBER 24, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 2.			
Ridgewood Trust Company, Ridgewood, N. J.	$150,000	$40,000	$2,280,126
DISTRICT NO. 7.			
Mechanicsville Trust & Savings Bank, Mechanicsville, Iowa	50,000	50,000	684,211
DISTRICT NO. 9.			
Stockmen's State Bank, Browning, Mont.	35,000	15,000	214,876

WITHDRAWAL.

The State Bank of Trumansburg, Trumansburg, N. Y.

CHANGE OF NAME

The Bankers Loan & Trust Company, Sioux City, Ia.,
to
The Union Trust and Savings Bank of Sioux City, Ia.

MERGER

The Bank of Buffalo has merged with the Marine Trust Company of Buffalo, New York.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 1, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 2.			
Lewis County Trust Company, Lowville, New York	$100,000	$50,000	$950,400
DISTRICT NO. 7.			
Bennett Savings Bank, Bennett, Iowa	50,000	10,000	502,652
New Haven Savings Bank, New Haven, Mich.	25,000	16,000	625,756
DISTRICT NO. 11.			
Briscoe County State Bank, Silverton, Texas	25,000	2,500	48,213
DISTRICT NO. 12.			
The Growers Bank, San Jose, California	300,000	30,000	360,000
Farmers State Bank, Uniontown, Washington	25,000	2,500	361,112

VOLUNTARY LIQUIDATION:

Farmers and Merchants Bank, Stockton, California.

CHANGE OF NAME:

The Guaranty Safe Deposit & Trust Company, Butler, Penna.,
to
Guaranty Trust Company of Butler, Butler, Penna.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 8, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 6.			
Exchange Bank of Valdosta, Valdosta, Georgia	$100,000	$14,800	$368,845
DISTRICT NO. 9.			
Clarks Fork Valley Bank of Fromberg, Montana	25,000	1,000	210,756
The First State Bank, Golden Valley, N. Dakota	25,000	2,500	220,789
DISTRICT NO. 10.			
Midwest Reserve Trust Company, Kansas City, Missouri	2,000,000	200,000	2,200,000
DISTRICT NO. 11.			
Kilgore State Bank, Kilgore, Texas	25,000	12,500	198,551

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 14, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 3.			
The Mill Hall State Bank, Mill Hall, Pennsylvania	$35,000	$15,000	$323,698
Dime Trust & Safe Deposit Co., Shamokin, Pennsylvania	125,000	125,000	1,461,025
DISTRICT NO. 9.			
First State Bank, Walnut Grove, Minnesota	50,000	2,500	400,627
Farmers & Merchants State Bank, Saco, Montana	25,000	1,000	223,469
Citizens' Bank & Trust Company, Rapid City, South Dakota	50,000	10,000	636,930

CHANGE OF NAME:

Farmers Savings Bank, Walla Walla, Washington,
to
The Farmers and Merchants Bank of Walla Walla.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

National Bank of Commerce, Detroit, Michigan.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 22, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 6.			
Bank of Commerce, Clayton, Alabama,	$50,000	$4,000	$215,109
DISTRICT NO. 12.			
Aurora State Bank, Aurora, Oregon,	25,000	13,000	369,217

CONVERSION:

The Marine Bank of Seattle, Seattle, Washington,
to
The Marine National Bank of Seattle, Seattle, Washington.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS
OF EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

Manufacturers & Traders National Bank, Buffalo, New York.

PERMISSION GRANTED TO EXERCISE TRUST POWERS: (Since October 1, 1920)

The Third National Bank of Springfield,	Springfield, Mass.
The Peoples National Bank of Hudson Falls,	Hudson Falls, N. Y.
The Wyoming County National Bank of Warsaw,	Warsaw, New York
The Chelsea National Bank of Atlantic City,	Atlantic City, N. J.
The First National Bank of Garfield,	Garfield, New Jersey
The First National Bank of Port Allegany,	Port Allegany, Penna.
The First National Bank of Windom,	Windom, Minnesota
The Manufacturers National Bank of Racine,	Racine, Wisconsin
The Whitney-Central National Bank,	New Orleans, La.
Dallas National Bank,	Dallas, Texas
The Citizens' National Bank of Waxahachie,	Waxahachie, Texas.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING OCTOBER 29, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 7.			
Madison County State Bank, Winterset, Iowa,	$125,000	$125,000	$1,348,455
DISTRICT NO. 12.			
Central Point State Bank, Central Point, Oregon,	25,000	5,000	328,866
Bank of Iron County, Parowan, Utah,	35,000	21,000	324,656
State Bank of Payson, Payson, Utah,	50,000	10,000	425,253

WITHDRAWALS:

Oyster Bay Bank, Oyster Bay, New York
Elizabeth State Bank, Elizabeth, Illinois

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF
EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

Citizens Commercial Trust Co., Buffalo, New York
First National Bank, Greensburg, Penna.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Huntington National Bank,	Huntington,	West Virginia
The First National Bank of Paulina,	Paulina,	Iowa
The First National Bank of Ripon,	Ripon,	Wisconsin
The First National Bank of Brenham,	Brenham,	Texas
The State National Bank of El Paso,	El Paso,	Texas
The New Haven Bank, N. B. A.,	New Haven,	Connecticut
The First National Bank of Camden,	Camden,	New Jersey
The Ephrata National Bank,	Ephrata,	Pennsylvania
The Southwest National Bank of Oklahoma City,	Oklahoma City,	Oklahoma

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 5, 1920

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 6.			
Commerce Bank & Trust Company, Commerce, Georgia,	$100,000	-	$326,635
La Grange Banking & Trust Co., La Grange, Georgia,	250,000	$650,000	4,071,433
DISTRICT NO. 9.			
Citizens State Bank of St. Peter, St. Peter, Minnesota,	50,000	20,000	770,763
DISTRICT NO. 10.			
Meadow Grove State Bank, Meadow Grove, Nebraska,	25,000	5,000	331,992
DISTRICT NO. 11.			
Bay City Bank & Trust Company, Bay City, Texas,	65,000	10,000	807,460
First State Bank, Bishop, Texas,	25,000	10,000	235,131
DISTRICT NO. 12.			
Madras State Bank, Madras, Oregon,	25,000	18,000	309,972
Jackson County Bank, Medford, Oregon,	100,000	20,000	1,218,732

The Farmers and Stockgrowers Bank of Sweet, Gem County, Idaho, has removed its place of business to Montour, Gem County, Idaho.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Brotherhood of Locomotive Engineers Co-operative National Bank of Cleveland,	Cleveland, Ohio.
The County National Bank of Lock Haven,	Lock Haven, Penna.
The St. Clair National Bank of Belleville,	Belleville, Ill.
The First National Bank of Marion,	Marion, Ill.

FEDERAL RESERVE BOARD

WASHINGTON

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 12, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 4.			
The Adena Commercial & Savings Bank, Adena, Ohio.	$60,000	-	$108,553
DISTRICT NO. 7.			
Magnolia Savings Bank, Magnolia, Iowa.	25,000	$10,000	320,837
DISTRICT NO. 12.			
Commercial Bank of Turlock, Turlock, California.	75,000	35,000	1,111,725

WITHDRAWAL:

First Trust and Savings Bank, Winamac, Indiana.

LIQUIDATION;

Leon Savings Bank, Leon, Iowa.

AUTHORIZED TO ACCEPT DRAFTS AND BILLS OF
EXCHANGE UP TO 100 PER CENT OF CAPITAL AND SURPLUS:

Security National Bank of Oklahoma City, Oklahoma.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 19, 1920

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 6.			
Bank of Donaldsonville, Donaldsonville, Georgia,	$100,000	$50,000	$724,939
DISTRICT NO. 7.			
Security Trust & Savings Bank, Shenandoah, Iowa,	60,000	6,000	395,254

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The First National Bank of Randolph, Randolph, Nebraska.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING NOVEMBER 26,1920

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 7.			
Citizens State Bank, Early, Iowa	$30,000	$33,000	$421,149
The Hamilton County State Bank, Webster City, Iowa	100,000	30,000	1,663,582
Stratford State Bank, Stratford, Wisconsin	50,000	10,000	459,396
DISTRICT NO. 10.			
The Fidelity State Bank, Aurora, Nebraska	50,000	15,000	907,888
DISTRICT NO. 12.			
J. N. Ireland & Co.,Bankers, Malad City, Idaho	40,000	12,500	612,913

CONVERSION:

The Superior Savings and Trust Company, Cleveland, Ohio,
to
The Superior National Bank and Trust Company of Cleveland, Ohio.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Second National Bank of Hoboken,	Hoboken, New Jersey
The First National Bank of Ridgewood,	Ridgewood,New Jersey
The First National Bank of Merchantville,	Merchantville, N. J.
The Broad Street National Bank of Philadelphia,	Philadelphia, Penna.
The First National Bank of Sharon,	Sharon, Penna.
The Superior National Bank & Trust Company,	Cleveland, Ohio
The Central National Bank of Cleveland,	Cleveland, Ohio
The First National Bank of Aurelia,	Aurelia, Iowa
The First National Bank of Maryville,	Maryville,Missouri
The First National Bank of Emerson,	Emerson, Nebraska

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 3, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 5.			
Farmers Bank & Trust Company, Forest City, N. C.	$ 100,000	$ 75,000	$ 1,347,778
DISTRICT NO. 7.			
Commercial Savings Bank, Farragut, Iowa.	40,000	10,000	247,393
Hudson Savings Bank, Hudson, Iowa.	50,000	20,000	648,994
Commercial State Bank, Constantine, Mich.	25,000	5,000	348,061
Sparta State Bank, Sparta, Mich.	30,000	8,000	525,284
DISTRICT NO. 8.			
Saline Trust & Savings Bank, Harrisburg, Ill.	100,000	50,000	867,840
DISTRICT NO. 12.			
Guaranty Bank & Trust Company, Seattle, Wash.	250,000	49,500	1,209,574

LIQUIDATION

The American Bank, Baltimore, Maryland.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The City National Bank of Lansing,	Lansing, Michigan.
The National Bank of Commerce of Hominy,	Hominy, Oklahoma.
The Lycoming National Bank of Williamsport,	Williamsport, Penna.
The Farmers National Bank of Shelbyville,	Shelbyville, Indiana.
The First National Bank of El Paso,	El Paso, Illinois.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 10, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 1.			
Massachusetts Trust Company, Boston, Massachusetts	$1,000,000	$500,000	$16,712,551
DISTRICT NO. 6.			
Bank of Bowersville, Bowersville, Georgia	25,000	5,000	124,212
Farmers & Merchants Bank, Hartwell, Georgia	100,000	12,000	494,262
DISTRICT NO. 7.			
Farmers State Bank, Grand River, Iowa	25,000	15,000	364,848
Farmers Savings Bank, Ute, Iowa	25,000	- -	139,255
DISTRICT NO. 8.			
Bolivar County Bank, Rosedale, Mississippi	150,000	- -	547,273
DISTRICT NO. 9.			
Farmers State Bank, Worden, Montana	25,000	5,000	248,080
DISTRICT NO. 11.			
Del Rio Bank & Trust Company, Del Rio, Texas	100,000	80,000	770,621

VOLUNTARY LIQUIDATIONS:

Pan American Bank & Trust Company, New Orleans, La.

Bank of Commerce, High Point, North Carolina (Consolidated with High Point Branch of the Wachovia Bank & Trust Company, Winston-Salem, N. C.)

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 17, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 6.			
Plains Bank, Plains, Georgia,	$50,000	$10,000	$562,223
Oglethorpe County Bank, Lexington, Georgia,	25,000	25,000	337,130
Central Bank, Swainsboro, Georgia,	25,000	- -	25,000
DISTRICT NO. 11.			
First Guaranty State Bank, Cross Plains, Texas,	30,000	- -	256,165

CHANGE OF NAME:

Alliance Bank, Rochester, N. Y., to Lincoln- Alliance Bank.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

Peoples National Bank, Elizabeth, New Jersey
First National Bank of Thermopolis, Wyoming.

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FEDERAL RESERVE BOARD ANNOUNCEMENT,
FOR THE WEEK ENDING DECEMBER 24, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 2.			
Fidelity Trust Company, Newark, New Jersey,	$3,000,000	$630,634	$31,818,766
Orleans County Trust Company, Albion, New York,	100,000	50,000	867,359
DISTRICT NO. 6.			
Bank of Monroe, Monroe, Georgia,	300,000	75,000	1,085,669
DISTRICT NO. 9.			
Metals Bank & Trust Company, Butte, Montana,	300,000	200,000	6,566,581
DISTRICT NO. 11.			
Security Bank & Trust Company, El Paso, Texas,	200,000	20,000	2,293,340

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Baxter National Bank of Rutland,	Rutland, Vermont
The First National Bank of Hazleton,	Hazleton,Penna.
The City National Bank of Canton,	Canton, Ohio
The First National Bank of Hoquiam,	Hoquiam, Wash.
The Metropolitan National Bank,	Seattle, Wash.

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FEDERAL RESERVE BOARD ANNOUNCEMENT
FOR THE WEEK ENDING DECEMBER 31, 1920.

ADMITTED TO THE FEDERAL RESERVE SYSTEM:

	Capital	Surplus	Total Resources
DISTRICT NO. 4.			
First Trust & Savings Co., Cleveland, Ohio	$1,250,000	$1,000,000	$32,817,744
DISTRICT NO. 6.			
Central State Bank of Lakeland, Lakeland, Florida	100,000	- -	352,440
DISTRICT NO. 7.			
State Bank of Early, Early, Iowa	40,000	20,000	388,288
Schaller Savings Bank, Schaller, Iowa	25,000	25,000	390,188

CONVERSION:

The Commercial Bank & Trust Company of Laurel, Mississippi, has been converted into a National bank.

PERMISSION GRANTED TO EXERCISE TRUST POWERS:

The Manufacturers National Bank of Troy,	Troy, N. Y.
The Ashland National Bank,	Ashland, Ky.
The Commercial National Bank & Trust Co.,	Laurel, Miss.
The Swedish-American National Bank,	Rockford, Ill.
The Waukegan National Bank,	Waukegan, Ill.
The City National Bank of Battle Creek,	Battle Creek, Mich.
The Nebraska City National Bank,	Nebraska City, Nebr.
The First National Bank of Albuquerque,	Albuquerque, N.Mex.

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board
Washington, D.C. X-1802

Saturday, July 3,1920

District	State Banks members June 26,1920	State Banks members this date	Increase during week	Eligible non-members June 26, 1920	Eligible non-members this date	Decrease during week	Percentage state bank members to total state banks
Boston	36	36	0	163	163	0	18
New York	132	132	0	250	250	0	35
Philadelphia (a)	41	40 (decrease 1)		266	266	0	13
Cleveland	108	109	1	500	499	1	18
Richmond	53	53	0	562	562	0	9
Atlanta	72	72	0	706	706	0	9
Chicago	339	339	0	1,903	1,903	0	15
St.Louis	85	86	1	918	917	1	9
Minneapolis	107	107	0	656	656	0	14
Kansas City	56	56	0	880	880	0	6
Dallas	160	161	1	373	372	1	30
SanFrancisco	184	185	1	598	597	1	24
Total	1,373	1,376	3	7,775	7,771	4	15

(a) Merger of two member banks.

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board
Washington, D.C.

X-1802

Saturday, July 10,1920

District	State Banks members July 3,1920	State Banks members this date	Increase during week	Eligible non-members July 3,1920	Eligible non-members this date	Decrease during week	Percentage of state bank members to total state banks
Boston	36	36	.-	163	163		18
New York	132	132		250	250		35
Philadelphia	40	40		266	266		13
Cleveland	109	109		499	499		18
Richmond	53	55	2	562	560	2	9
Atlanta	72	72		706	706		9
Chicago	339	339		1,903	1,903		15
St.Louis	86	86		917	917		9
Minneapolis	107	107		656	656		14
Kansas City	56	57	1	880	879	1	6
Dallas	161	165	4	372	368	4	31
San Francisco	185	186	1	597	596	1	24
Total	1,376	1,384	8	7,771	7,763	8	15

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board
Washington, D.C.

Saturday, July 17,1920 X-1802

District	State Banks members July 10,1920	State Banks members this date	Increase during week	Eligible non-members July 10, 1920	Eligible non-members this date	Decrease during week	Percentage of state bank members to total state banks
Boston	36	36	-	163	163	-	18
New York	132	132	-	250	250	-	35
Philadelphia	40	40	-	266	266	-	13
Cleveland	109	109	-	499	499	-	18
Richmond	55	55	-	560	560	-	9
Atlanta	72	73	1	706	705	1	9
Chicago	339	340	1	1,903	1,902	1	15
St. Louis	86	86	-	917	917	-	9
Minneapolis (a)	107	106	(Decrease 1)	656	657	(Increase 1)	14
Kansas City	57	58	1	879	878	1	6
Dallas	165	170	5	368	373	5	32
San Francisco (b)	186	184	(Decrease 2)	596	596	-	24
Total	1,384	1,389	5	7,763	7,756	7	15

(a) One withdrawal
(b) Liquidation of 2 member banks.

614

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board,
Washington, D.C. X-1802

Saturday, July 24,1920.

District	State Banks members July 17,1920	State Banks members this date	Increase during week	Eligible non-members July 17, 1920	Eligible non-members this date	Decrease during week	Percentage of state bank members to total state banks
Boston	36	36	-	163	163	-	18
New York	132	132	-	250	250	-	35
Philadelphia	40	41	1	266	265	1	13
Cleveland	109	109	-	499	499	-	18
Richmond	55	55	-	560	560	-	9
Atlanta	73	74	1	705	704	1	9
Chicago	340	340	-	1,902	1,902	-	15
St.Louis	86	88	2	917	915	2	9
Minneapolis (a)	106	105	(Decrease 1)	657	657	-	14
Kansas City	58	58	-	878	878	-	6
Dallas	170	171	1	363	362	1	32
San Francisco	184	184	-	596	596	-	24
Total	1,389	1,393	4	7,756	7,751	5	15

(a) One state member bank converted into a National Bank.

614

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board,
Washington, D.C.

Saturday, July 31,1920 X-1802

District	State Banks members July 24,1920	State Banks members this date	Increase during week	Eligible non-members July 24, 1920	Eligible non-members this date	Decrease during week	Percentage of state bank members to total state banks
Boston	36	36	-	163	163	-	18
New York	132	132	-	250	250	-	35
Philadelphia	41	41	-	265	265	-	13
Cleveland	109	109	-	499	499	-	18
Richmond	55	55	-	560	560	-	9
Atlanta	74	75	1	704	703	1	10
Chicago	340	340	-	1,902	1,902	-	15
St.Louis	88	89	1	915	914	1	9
Minneapolis	105	106	1	657	656	1	14
Kansas City	58	58	-	878	878	-	6
Dallas	171	173	2	362	360	2	32
SanFrancisco	184	185	1	596	595	1	24
Total	1,393	1,399	6	7,751	7,745	6	15

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board
Washington, D.C. X-1802

Saturday, August 7,1920.

District	State Banks members July 31,1920	State Banks members this date	Increase during week	Eligible non-members July 31, 1920	Eligible non-members this date	Decrease during week	Percentage of state bank members to total state banks
Boston	36	36	-	163	163	-	18
New York	132	133	1	250	249	1	35
Philadelphia	41	42	1	265	264	1	13
Cleveland	109	110	1	499	498	1	18
Richmond	55	55	-	560	560	-	9
Atlanta	75	75	-	703	703	-	10
Chicago	340	342	2	1,902	1,900	2	15
St.Louis	89	89	-	914	914	-	9
Minneapolis	106	106	-	656	656	-	14
Kansas City	58	59	1	878	877	1	6
Dallas	173	174	1	360	359	1	32
SanFrancisco	185	187	2	595	593	2	24
Total	1,399	1,408	9	7,745	7,736	9	15

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CAMPAIGN FOR MEMBER STATE BANKS X-1802
(WEEKLY REPORT)

Federal Reserve Board,
Washington, D. C.

Saturday, August 14, 1920

DISTRICT	State Banks members Aug. 7,1920	State Banks members this date	Increase during week	Eligible non-members Aug. 7,1920	Eligible nonmembers this date	Decrease during week	Percentage of State bank members to total State Banks
Boston	36	36	-	163	163	-	18
New York	133	133	-	249	249	-	35
Philadelphia	42	42	-	264	264	-	13
Cleveland	110	110	-	498	498	-	18
Richmond	55	56	1	560	559	1	9
Atlanta	75	75	-	703	703	-	10
Chicago	342	342	-	1,900	1,900	-	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	106	106	-	656	656	-	14
Kansas City	59	59	-	877	877	-	6
Dallas	174	175	1	359	358	1	33
San Francisco	187	188	1	593	592	1	24
TOTAL	1,408	1,411	3	7,736	7,733	3	15

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board,
Washington, D.C.

Saturday, August 21,1920 X-1802

District	State Banks members Aug.14,1920	State Banks members this date	Increase during week	Eligible non-members Aug.7,1920	Eligible non-members this date	Decrease during week	Percentage of state bank members to total state banks
Boston	36	36	-	163	163	-	18
New York	133	133	-	249	249	-	35
Philadelphia	42	43	1	264	263	1	14
Cleveland	110	110	-	498	498	-	18
Richmond	56	56	-	559	559	-	9
Atlanta	75	75	-	703	703	-	10
Chicago	342	342	-	1,900	1,900	-	15
St.Louis	89	89	-	914	914	-	9
Minneapolis	106	106	-	656	656	-	14
Kansas City	59	59	-	877	877	-	6
Dallas	175	175	-	358	358	-	33
SanFrancisco	188	189	1	592	591	1	24
Total	1,411	1,413	2	7,733	7,731	2	15

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board,
Washington, D.C.

Saturday, August 28th, 1920. X-1802

District	State Banks members Aug.21,1920	State Banks members this date	Increase during week	Eligible non-members Aug.21, 1920	Eligible non-members this date	Decrease during week	Percentage of State Bank members to total state banks
Boston	36	36	-	163	163	-	18
New York	133	133	-	249	249	-	35
Philadelphia	43	43	-	263	263	-	14
Cleveland	110	110	-	498	498	-	18
Richmond	56	56	-	559	559	-	9
Atlanta	75	75	-	703	703	-	10
Chicago	342	344	2	1,900	1,898	2	15
St.Louis	89	89	-	914	914	-	9
Minneapolis	106	106	-	656	656	-	14
Kansas City	59	59	-	877	877	-	6
Dallas	175	175	-	358	358	-	33
SanFrancisco	189	190	1	591	590	1	24
Total	1,413	1,416	3	7,731	7,728	3	15

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board
Washington, D.C. X-1802

Saturday, September 4, 1920.

District	State Banks members Aug. 28, 1920	State Banks members this date	Increase during week	Eligible non-members Aug. 28, 1920	Eligible non-members this date	Decrease during week	Percentage of State bank members to total State banks.
Boston	36	36	-	163	163	-	18
New York	133	133	-	249	249	-	35
Philadelphia	43	43	-	263	263	-	14
Cleveland	110	110	-	498	498	-	18
Richmond	56	56	-	559	559	-	9
Atlanta	75	75	-	703	703	-	10
Chicago	344	345	1	1,898	1,897	1	15
St.Louis	89	89	-	914	914	-	9
Minneapolis	106	106	-	656	656	-	14
Kansas City	59	59	-	877	877	-	6
Dallas	175	178	3	358	355	3	33
SanFrancisco	190	190	-	590	590	-	24
Total	1,416	1,420	4	7,728	7,724	4	16

X-1802

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board
Washington, D. C.
Saturday, September 11, 1920.

DISTRICT	State Banks members Sept. 4, 1920	State Banks members this date	Increase during week	Eligible non-members Sept. 4, 1920	Eligible non-members this date	Decrease during week	Percentage of State Bank members to total State Banks
Boston	36	37	1	163	162	1	19
New York	133	133	-	249	249	-	35
Philadelphia	43	43	-	263	263	-	14
Cleveland	110	110	-	498	498	-	18
Richmond	56	56	-	559	559	-	9
Atlanta	75	75	-	703	703	-	10
Chicago	345	344	(Decrease 1)	1,897	1,898	(Increase 1)	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	106	106	-	656	656	-	14
Kansas City	59	59	-	877	877	-	6
Dallas	178	178	-	355	355	-	33
San Francisco	190	190	-	590	590	-	24
TOTAL	1,420	1,420	0	7,724	7,724	0	16

X-1802

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board
Washington, D. C.
Saturday, September 18, 1920.

DISTRICT	State Banks members Sept.11,1920	State Banks members this date	Increase during week	Eligible non-members Sept. 11, 1920.	Eligible non-members this date	Decrease during week	Percentage of State Bank members to total State Banks
Boston	37	38	1	162	161	1	19
New York	133	133	-	249	249	-	35
Philadelphia	43	44	1	263	262	1	14
Cleveland	110	110	-	498	498	-	18
Richmond	56	57	1	559	558	1	9
Atlanta	75	75	-	703	703	-	10
Chicago	344	344	-	1898	1898	-	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	106	106	-	656	656	-	14
Kansas City	59	60	1	877	876	1	6
Dallas	178	180	2	355	353	2	34
San Francisco	190	190	-	590	590	-	24
TOTAL	1,420	1,426	6	7,724	7,718	6	16

X-1802

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

Federal Reserve Board
Washington, D.C.

Saturday, September 25,1920.

District	State Banks members Sept. 18,1920	State Banks members this date	Increase during week	Eligible non-members Sept. 18, 1920	Eligible non-members this date	Decrease during week	Percentage of state bank members to total state banks
Boston	38	38	-	161	161	-	19
New York	133	132 (Decrease	1	249	249	-	35
Philadelphia	44	44	-	262	262	-	14
Cleveland	110	110	-	498	498	-	18
Richmond	57	57	-	558	558	-	9
Atlanta	75	75	-	703	703	-	10
Chicago	344	345	1	1,898	1,897	1	15
St.Louis	89	89	-	914	914	-	9
Minneapolis	106	107	1	656	655	1	14
Kansas City	60	60	-	876	876	-	6
Dallas	180	180	-	353	353	-	34
SanFrancisco	190	190	-	590	590	-	24
Total	1,426	1,427	1	7,718	7,716	2	16

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

X-1798

Federal Reserve Board,
Washington, D. C.,

Saturday, Oct. 2, 1920.

District	State Banks members Sep.25,1920	State Banks members this date	Increase during week	Eligible non-members Sep.25,1920	Eligible non-members this date	Decrease during week	Percentage of State Bank Members to total State Banks.
Boston	38	38	-	161	161	-	19
New York	132	133	1	249	248	1	35
Philadelphia	44	44	-	262	262	-	14
Cleveland	110	110	-	498	498	-	18
Richmond	57	57	-	558	558	-	9
Atlanta	75	75	-	703	703	-	10
Chicago	345	347	2	1897	1895	2	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	107	107	-	655	655	-	14
Kansas City	60	60	-	876	876	-	6
Dallas	180	181	1	353	352	1	34
San Francisco*	190	191	1	590	588	2	24
Total,	1,427	1,432	5	7,716	7,710	6	16

*One state bank member went into voluntary liquidation and two banks admitted.

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CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

X-1798

Federal Reserve Board,
Washington, D. C.,

Saturday, October 9, 1920.

DISTRICT	State Banks members Oct. 2, 1920	State Banks Members this date	Increase during week	Eligible non-members Oct. 2, 1920	Eligible non-members this date	Decrease during week	Percentage of State Bank Members to total State Banks.
Boston	38	38	-	161	161	-	19
New York	133	133	-	248	248	-	35
Philadelphia	44	44	-	262	262	-	14
Cleveland	110	110	-	498	498	-	18
Richmond	57	57	-	558	558	-	9
Atlanta	75	76	1	703	702	1	10
Chicago	347	347	-	1895	1895	-	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	107	109	2	655	653	2	14
Kansas City	60	61	1	876	875	1	6
Dallas	181	182	1	352	351	1	34
San Francisco	191	191	-	588	588	-	24
TOTAL	1432	1437	5	7710	7705	5	16

625

CAMPAIGN FOR MEMBER STATE BANKS
(WEEKLY REPORT)

X-1802

Federal Reserve Board,
Washington, D. C.,

Saturday, October 16, 1920.

DISTRICT	State Banks members Oct. 9, 1920	State Banks members this date	Increase during week	Eligible non-members Oct. 9, 1920	Eligible non-members this week	Decrease during week	Percentage of State Bank Members to total State Banks.
Boston	38	38	-	161	161	-	19
New York	133	133	-	248	248	-	35
Philadelphia	44	46	2	262	260	2	15
Cleveland	110	110	-	498	498	-	18
Richmond	57	57	-	558	558	-	9
Atlanta	76	76	-	702	702	-	10
Chicago	347	347	-	1895	1895	-	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	109	112	3	653	650	3	15
Kansas City	61	61	-	875	875	-	6
Dallas	182	182	-	351	351	-	34
San Francisco	191	191	-	588	588	-	24
TOTAL	1,437	1,442	5	7,705	7,700	5	16

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CAMPAIGN FOR MEMBER STATE BANKS
(Weekly Report)

X-1802

Federal Reserve Board
Washington, D. C.

Saturday, October 23, 1920

DISTRICT	State Banks members Oct.16,1920	State Banks members this date	Increase during week	Eligible non-members Oct.16,1920	Eligible non-members this week	Decrease during week	Percentage of State Bank Members to total State Banks.
Boston	38	38	-	161	161	-	19
New York	133	133	-	248	248	-	35
Philadelphia	46	46	-	260	260	-	15
Cleveland	110	110	-	498	498	-	18
Richmond	57	57	-	558	558	-	9
Atlanta	76	77	1	702	701	1	10
Chicago	347	347	-	1895	1895	-	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	112	112	-	650	650	-	15
Kansas City	61	61	-	875	875	-	6
Dallas	182	182	-	351	351	-	34
San Francisco(a)	191	191	-	588	588	-	24
TOTALS	1442	1443	1	7700	7699	1	16

(a) One State Bank converted into National Bank and one bank admitted.

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X-1802

CAMPAIGN FOR MEMBER STATE BANKS
(Weekly Report)

Federal Reserve Board
Washington, D. C.

Saturday, October 30, 1920.

DISTRICT	State Banks members Oct.23,1920	State Banks members this date	Increase during week	Eligible non-members Oct.23,1920	Eligible non-members this week	Decrease during week	Percentage of State Bank Members to total State Banks.
Boston	38	38	-	161	161	-	19
New York (a)	133	132	(Decrease 1)	248	249	(Increase 1)	35
Philadelphia	46	46	-	260	260	-	15
Cleveland	110	110	-	498	498	-	18
Richmond	57	57	-	558	558	-	9
Atlanta	77	77	-	701	701	-	10
Chicago (b)	347	347	-	1,895	1,895	-	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	112	112	-	650	650	-	15
Kansas City	61	61	-	875	875	-	6
Dallas	182	182	-	351	351	-	34
San Francisco	191	194	3	588	585	3	25
TOTALS	1,443	1,445	2	7,699	7,697	2	16

(a) One State bank withdrawn.
(b) One State bank withdrawn and one bank admitted.

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X-1802

CAMPAIGN FOR MEMBER STATE BANKS
(Weekly Report)

Federal Reserve Board,
Washington, D. C.

Saturday, November 6, 1920.

DISTRICT	State Banks members Oct.30,1920	State Banks members this date	Increase during week	Eligible non-members Oct.30,1920	Eligible non-members this week	Decrease during week	Percentage of State Bank Members to total State Banks.
Boston	38	38	-	161	161	-	19
New York	132	132	-	249	249	-	35
Philadelphia	46	46	-	260	260	-	15
Cleveland	110	110	-	498	498	-	18
Richmond	57	57	-	558	558	-	9
Atlanta	77	79	2	701	699	2	10
Chicago	347	347	-	1,895	1,895	-	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	112	113	1	650	649	1	15
Kansas City	61	62	1	875	874	1	7
Dallas	182	184	2	351	349	2	35
San Francisco	194	196	2	585	583	2	25
TOTALS	1,445	1,453	8	7,697	7,689	8	16

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X-1802

CAMPAIGN FOR MEMBER STATE BANKS
(Weekly Report)

Federal Reserve Board,
Washington, D. C.

Saturday, November 13, 1920.

DISTRICT	State Banks members Nov. 6,1920	State Banks members this date	Increase during week	Eligible non-members Nov. 6,1920	Eligible non-members this week	Decrease during week	Percentage of State Bank Members to total State Banks
Boston	38	38	-	161	161	-	19
New York	132	132	-	249	249	-	35
Philadelphia	46	46	-	260	260	-	15
Cleveland	110	111	1	498	497	1	18
Richmond	57	57	-	558	558	-	9
Atlanta	79	79	-	699	699	-	10
Chicago*	347	346	(Decrease 1)	1,895	1,895	-	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	113	113	-	649	649	-	15
Kansas City	62	62	-	874	874	-	7
Dallas	184	184	-	349	349	-	35
San Francisco	196	197	1	583	582	1	25
TOTALS	1,453	1,454	1	7,689	7,687	2	16

*One bank admitted; two withdrawn.

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CAMPAIGN FOR MEMBER STATE BANKS
(Weekly Report)

X-1802

Federal Reserve Board,
Washington, D. C.

Saturday, November 20, 1920.

DISTRICT	State Banks members Nov.13,1920	State Banks members this date	Increase during week	Eligible non-members Nov.13,1920	Eligible non-members this week	Decrease during week	Percentage of State Bank Members to total State Banks.
Boston	38	38	-	161	161	-	19
New York	132	132	-	249	249	-	35
Philadelphia	46	46	-	260	260	-	15
Cleveland	111	111	-	497	497	-	18
Richmond	57	57	-	558	558	-	9
Atlanta	79	80	1	699	698	1	10
Chicago	346	347	1	1,895	1,894	1	15
St. Louis	89	89	-	914	914	-	9
Minneapolis	113	113	-	649	649	-	15
Kansas City	62	62	-	874	874	-	7
Dallas	184	184	-	349	349	-	35
San Francisco	197	197	-	582	582	-	25
TOTALS	1,454	1,456	2	7,687	7,685	2	16

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X-1802

CAMPAIGN FOR MEMBER STATE BANKS
(Weekly Report)

Federal Reserve Board,
Washington, D. C.

Saturday, November 27, 1920.

DISTRICT	State Banks members Nov.20,1920	State Banks members this date	Increase during week	Eligible non-members Nov.20,1920	Eligible non-members this date	Decrease during week	Percentage of State Bank Members to total State Banks.
Boston	38	38	-	161	161	-	19
New York	132	132	-	249	249	-	35
Philadelphia	46	46	-	260	260	-	15
Cleveland[a]	111	110	(Decrease 1)	497	497	-	18
Richmond	57	57	-	558	558	-	9
Atlanta	80	80	-	698	698	-	10
Chicago	347	350	3	1,894	1,891	3	16
St. Louis	89	89	-	914	914	-	9
Minneapolis	113	113	-	649	649	-	15
Kansas City[b]	62	63	1	874	874	-	7
Dallas	184	184	-	349	349	-	35
San Francisco	197	198	1	582	581	1	25
TOTALS	1,456	1,460	4	7,685	7,681	4	16

(a) One State member bank converted into a National bank.
(b) Newly organized State bank.

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CAMPAIGN FOR MEMBER STATE BANKS
(Weekly Report)

X-1802
Federal Reserve Board,
Washington, D. C.

Saturday, December 4, 1920.

DISTRICT	State Banks members Nov. 27, 1920	State Banks members this date	Increase during week	Eligible non-members Nov. 27, 1920	Eligible non-members this date	Decrease during week	Percentage of State Bank Members to total State Banks.
Boston	38	38	-	161	161	-	19
New York	132	132	-	249	249	-	35
Philadelphia	46	46	-	260	260	-	15
Cleveland	110	110	-	497	497	-	18
Richmond (a)	57	57	-	558	557	1	9
Atlanta	80	80	-	698	698	-	10
Chicago	350	354	4	1,891	1,887	4	16
St. Louis	89	90	1	914	913	1	9
Minneapolis	113	113	-	649	649	-	15
Kansas City	63	63	-	874	874	-	7
Dallas	184	184	-	349	349	-	35
San Francisco	198	199	1	581	580	1	26
TOTALS	1,460	1,466	6	7,681	7,674	7	16

(a) One bank admitted and one liquidated.

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FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in morning papers,
July 1, 1920.

June 29,1920

The following is a review of general business and financial conditions throughout the several Federal Reserve Districts during the month of June, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Considerable variation in business conditions, taking the country as a whole, is reported by Federal Reserve Agents. In agricultural production there is a perceptible improvement in prospects, due to seasonable weather, good distribution of moisture, and the replanting of crops. In manufacturing, conditions are in some districts reported as chaotic, ranging from extreme optimism to equally extreme pessimism. The railroad situation has been somewhat improved, but as yet not sufficiently to warrant a belief that the effects of the breakdown have been overcome. There is still great congestion of goods. In retail trade there is evidence of a decreased volume of demand in many parts of the country, although some of this decline is seasonal. Quite generally there is a tendency to settle down to a readjustment basis and to proceed with business upon the new level of prices and demand. Control of credit and discrimination between non-essential and speculative borrowing is producing some results, although these are reported as developing themselves slowly and gradually. The present price situation is unsettled, and is being closely watched. While some price-reporting agencies show a reduction, others, including among them the Bureau of Labor Statistics, show increases in prices, due perhaps to the different character of the commodities used in making up index numbers and the methods of construction, rather than in discrepancy in prices themselves. Foodstuffs and essential commodities except clothing and shoes, show little indication of reduction; luxuries and "unessentials" have been in many lines distinctly cut.

Business is passing through a period of readjustment and, in many directions, of depression. There is, however, every indication that this transition period will not last long -- indeed, that the turn toward new conditions has already been taken.

In District No. 1 (Boston) the outstanding features of the situation have been more spectacular during May than at any time since the armistice, for the forces which have been operating to produce liquidation of commodities have culminated in an unmistakable manner. Cancellation of orders has been an important factor while price reductions, although not believed permanent, have been important.

In District No. 2 (New York), speculation has been depressed, although the bond market has been more firmly supported than for some months past. Exporters report a softening in the foreign demand for American products. Immigration is increasing, prices have fallen in some lines quite decidedly and retail trade has been stimulated by recent reductions. Building continues inadequate.

In District No. 3 (Philadelphia) "the industrial situation is marked by the same adverse tendencies which were factors last month . . . Decreases in the amount of orders received for iron and steel are held to be due to the greater concentration of attention on orders which have already been placed. A very slight improvement in transportation conditions had been reported during the first few weeks in June, but this improvement was not great enough to be of any real assistance to manufacturers . . . The past few months have been marked by slowing up of collections in many of the more important lines of business."

In District No. 4 (Cleveland) "conditions are somewhat chaotic in the manufacturing field . . . Complaint of car shortage is general . . . Makers of goods who depend for raw materials upon the metal trades report that steel was never so difficult to obtain as now . . . Throughout almost the entire manufacturing field is found a marked increase in the productiveness of labor." Cancellations of orders are frequent in various lines, particularly those connected with building.

In District No. 5 (Richmond) "the breakdown of the traffic system and the wave of price-cutting in retail stores were the outstanding features . . . The inability of the railroads to furnish cars . . . and the further freezing of credits have been the chief elements in keeping prices high. The widespread protest against high prices has had an unsettling effect in all lines of trade."

In District No. 6 (Atlanta) there is a tendency on the part of the public to refuse to pay exorbitant prices, and "while the volume of retail trade is large, there has been quite a subsiding of the rush caused by the announcement of price reductions. There is, on the whole, no uneasiness concerning the future of business and industry. It is becoming more and more apparent, however, that the process of deflation has begun."

In District No. 7 (Chicago) discrimination against unessential and speculative borrowing, and reduction in the volume of commodities offered for shipment, are operating to relieve the credit strain. Saving accounts are growing. Much money is still tied up in inventories, but there is some indication of decided improvement in conditions.

In District No. 8 (St.Louis) "business . . . has not slackened its recent pace of tremendous activity . . . Agricultural prospects . . . have bettered in an astonishing degree. Retail business has been stimulated. . . . Deliveries and shipments have been more efficient although still vastly under normal . . . Apprehensions felt in financial circles a few weeks back have largely disappeared."

In District No. 9 (Minneapolis) crop progress during the month has been excellent. The feeling among business men generally "is of a steadier and more hopeful nature than thirty days ago. . . . The decline in prices has been sustained in such lines as shoes, silks, and ready-to-wear goods. Traffic conditions, however, show very little improvement."

Car shortage has become a serious menace."

In District No. 10 (Kansas City) the tide of depression existing for a short time recently seems to have abated to an appreciable extent." . . . However, transportation facilities "are lamentably inadequate" and as a result "there is an added strain to the already greatly expanded credits, a slackening of industrial effort, and a prolongation of inflated prices of foods and commodities." The industrial situation, however, "is somewhat easier than it has been for several months." Shortage of cars is, however, "still a disturbing factor."

In District No. 11 (Dallas) changes in agricultural and commercial conditions "have not been very noticeable . . . Agricultural prospects have slightly improved . . . In mercantile lines there is continued evidence of a decreased volume, both retail and wholesale." In wholesale trade, moreover, "cancellations are quite numerous and buying is upon a very conservative basis." Effort to obtain greater production has had a fair measure of success.

In District No. 12 (SanFrancisco) the condition of crops is practically unchanged, but range conditions are improved. Shortage of cars is still causing congestion. Retail business has, however, increased and the labor situation has improved somewhat.

Possibly the most encouraging factor reported during the month has been the advance in condition of seasonal crops. From District No. 9 (Minneapolis) it is reported that rains have been widespread and the dry sections in Montana and western North Dakota have received adequate moisture, while the wheat crop, although with a somewhat reduced acreage, shows an excellent stand. The flax outlook is promising, corn shows a large acreage, there is a satisfactory grass and forage outlook, and the cutting of alfalfa will be heavy. The wheat situation in District No.10 (Kansas City) is likewise reported very much better. Winter wheat "made remarkable improvement in May and there is promise of a much larger yield than was predicted at the beginning of the month. In Kansas the wheat crop may be the third best in the history of the State. Spring wheat is also reported as very fine with a yield about normal, in spite of reduced acreage. Corn is showing encouraging progress, with increased acreage, and small grains are in good condition and with acreage about normal. The Pacific Coast crops show excellent promise, production of oats being expected to run higher than in 1919. There has been a falling off in barley in California, but the fruit crop is expected to equal, or perhaps exceed, in most cases the yield of 1919. There has been a drop in prunes, cherries and apples. Range conditions are excellent. The worst situation is seen in cotton. From District No. 6 (Atlanta) it appears that the poor conditions already reported by the Government have been but little improved and that not only will the acreage be small, but the yield per acre in many sections will be low. There was, however, improvement during the first two weeks in June. In District No. 11 (Dallas) heavy rains have interfered with the planting of cotton in some sections and the acreage will be smaller than expected. This is partly offset by favorable conditions in New Mexico and Arizona and by replanting in southern Oklahoma. In the middle west, (District No. 7) agricultural conditions are generally considered favorable, and while corn planting was late the plant was growing rapidly and soil conditions are propitious. Large stocks of all agricultural products are still being carried on farms and some authorities in various parts of the country advise the storing of grain as the new crop is produced.

May witnessed the termination of Government control of wheat, ending the minimum price guarantee, without causing even a slight flurry at market centers. Speculative trading, however, is held in abeyance until the exchanges have worked out plans for the regulation of futures. The problem of obtaining sufficient cars to handle the unmarketed portion of the 1919 crop in general has been a matter of considerable concern. In the Kansas City District "it is regarded as certain that probably 25 per cent of the last year's crop will still be in the hands of farmers when the new 1920 crop begins to flow to the markets." May wheat receipts in this district, while handicapped by car shortage, were considerably in excess of the low April figures, although corn and oats receipts were small. High April wheat prices in Kansas City, due to demand for good milling wheat, have been sustained, while oats prices were likewise high. Flour prices at Kansas City advanced during the month of May in sympathy with the rise in wheat. Receipts of wheat at Minneapolis and Duluth for the crop year beginning September 1, 1919, indicate, when compared with the estimates of the United States Department of Agriculture of the total crop for 1919, that 83.2 per cent of the crop had been moved by that date, as compared with 66.5 per cent for the 1918 crop and 45 per cent for the 1917 crop.

The live-stock situation is among the most promising departments of agricultural effort in the country. In District No. 10 (Kansas City) pasture conditions are excellent, although the movement of stock to grazing lands is slow. However, live-stock in all States is generally healthy and improving in condition. Receipts of cattle at 15 principal markets during May were 1,209,656 head, as compared with 1,040,903 head during April, and 1,262,065 head during May, 1919, the respective index numbers being 120, 103 and 125. Receipts of hogs amounted to 3,128,249 head during May, corresponding to an index number of 152, as compared with 2,150,281 head during April, and 3,049,223 head during May, 1919, the respective index numbers being 98 and 139. Receipts of sheep for May were 796,160 head, as compared with 928,191 head during April and 934,613 head during May, 1919 the respective index numbers being 58, 68 and 68. During the first two weeks of June strong increases in live-stock prices in the face of diminished receipts were recorded. From District No. 11 (Dallas) it is reported that range conditions are good and that the condition of live-stock throughout the entire District is "from good to excellent", while live-stock prices have continued to sag toward lower levels, and at Fort Worth and other markets fairly large consignments have been received, a considerable portion of the offerings consisting of choice, heavy animals in excellent condition. The number of cattle yarded at Fort Worth in May compares favorably with the corresponding receipts for the past eight years, except in 1917. In various Districts, however, cattle interests have felt restriction of credit due to a lack of demand for cattle paper, and this has rendered the problem of rehabilitating the yards in the breeding sections a serious one. From District No. 7 (Chicago) it is reported that the hight cost of money has tended to limit accommodations to the live-stock industry.

Railroad congestion and similar difficulties have continued to make it difficult for iron and steel manufacturers to keep up their production, but energetic effort has already had its effect. From District No. 4 (Cleveland) it is reported that a "surprisingly good showing" is being made, all things considered. Pig iron output for May was a little under 3,000,000 tons, or a gain of about 240,000 tons over April. Operations, however, are being carried on with a narrow margin of safety because of the short car supply and the uncertain receipts of raw materials, including both ore and coal. The railroads are still unable to meet the demands upon them, and the unfavorable coal prospects affecting the late summer and autumn, cause anxiety with respect to the future. The most serious aspect of the situation as bearing upon sustained operation is the large amount of rolled steel which continues to be carried in the yards because of inability to ship. In the Pittsburgh district alone this is estimated at 500,000 tons. From District No. 3 (Philadelphia) it is reported that the demand for iron and steel remains quiet, pending the return of better transportation conditions, and while production of pig iron showed a small improvement during May, the change was not material. Iron products have a steady and satisfactory market and consumers have not accumulated any considerable surplus. Costs are so high that there is no prospect of lower prices and the improvement of transportation will result in an immediate development of business. Producers hesitate to accept new orders far in the future because of high production costs. In the Cleveland district, too, it is reported that new business is on a reduced basis, partly due to uncertainty of deliveries and inabliity to direct future costs. The railroads have not been buying equipment to the extent that was hoped. In the Birmingham district it is reported that a steady demand throughout the remainder of the year for iron and steel is anticipated. While pig-iron manufacturers have fared better as to cars than coal producers, steel mills are active and a slight lull in buying has not checked confidence. The general rate of $42 per ton for pig iron has been maintained. Throughout the country fabricating plants are as active as the supply of coal will permit. The unfilled orders of the United States Steel Corporation at the close of May were 10,940,466 tons, corresponding to an index number of 208, as compared with 10,359,747 tons at the close of April, corresponding to an index number of 197. Steel ingot production shows an increase from 2,638,-305 tons during April to 2,883,164 tons during May, the respective index numbers being 119 and 109.

Continued congestion in coal is closely allied to the decrease produced by the unsatisfactory railroad situation in the steel industry. In Alabama (District No. 6) coal production has been lagging for some time and there is coal shortage at many points with a tendency on the part of production to fall off. In Pennsylvania (District No. 3) work at the mines is slack, owing to the poor car supply. On one of the leading railroads conditions have been deplorable, the car supply being some times as low as 10 per cent and often not over 30 per cent. The Great Lakes district is in serious danger through the shortage of bituminous coal. The labor situation is unsatisfactory, many foreign workers leaving for their native lands.

Demand for coal is far in excess of the supply and should present conditions continue, manufacturing will be seriously interfered with. Domestic coal prices are rising slightly. Collections in the coal business are good, but dealers are suffering from the lack of adequate capital. In the Lake region (District No. 4) shipments of ore and coal show a loss as compared with last season and a shortage at both ends of of the Lake route is expected at the close of the shipping season. Vessels in the ore trade, owing to the light movement of grain and coal, show a decrease in business. Coal shipments up to June 1 were 3,200,000 tons less than for the same period last season, although there has been a slight increase since that date. All Lake coal is now being pooled on practically the 1918 basis. Iron, steel, and other plants will be seriously held up and obliged to slow down their production unless a very distinct improvement in transportation speedily occurs. Production of bituminous coal for the country at large during May amounted to 39,057,000 tons, as compared with 37,966,000 tons during April and 37,547,000 tons during May, 1919, the respective index numbers being 105,102, and 101. There has been no increase in labor difficulties in the coal industry, the difficulty of the situation being found in other directions.

As for petroleum, reports from District No. 10 (Kansas City) show a large gain in field operations, while Kansas wells gained 2,051 barrels daily in new production in May. For the district as a whole daily production was 102,000 barrels, as against 67,000 barrels in April and 56,000 in May, 1919. No material changes in the price of crude oil were reported.

In District No. 11 (Dallas) the number of oil wells being drilled at the close of May was 2,958, compared with 3,063 at the end of April. Crude oil prices range from $3.14 to $3.50. Drilling reports showed a substantial improvement for the month of May. The output for May was 11,714,000 barrels or an increase of about 690,000 barrels over April.

Metal mining conditions were not quite as favorable during May as they were a little earlier. The fall in the price of silver has eliminated the profits of many silver operators, while in lead and zinc shipments showed a decided reaction for May as compared with April. Zinc and calamine prices were nearly stationary. Lead shipments declined from the preceding month, the average for each week in May in the Missouri-Kansas-Oklahoma district being 1,959 tons as compared with 2,524 tons during April. The price level showed a material cut, falling from $110 to $100. The weather conditions were bad during May, while harvest demands have drawn off labor. Considerable unsold ore is on hand in various lines of production.

In the field of general manufacturing conditions have varied greatly as a result of transportation troubles, credit control and other factors. In the Philadelphia region (District No. 3) there has been marked depression in shoes and leather. Tanning is inactive and should the price of raw hides continue as low as today, next year's shoes will show a material decrease in price. From District No. 1 (Boston) it is reported that not within the memory of the oldest dealer in leather has the Boston market been so stagnant as during the last two months. A vast amount of shoes have been returned by retailers, jobbers and wholesalers to the manufacturers. Orders have been cancelled to an unprecedented extent. Many tanneries have closed down entirely and their prices are off from former high levels. Fall shoes, however, will be at relatively high levels of price. Public sales have been conducted by manufacturers in order to eliminate surplus stocks. In District No. 5 (Richmond) boot and shoe manufacturers are facing a period of small business, retailers are buying slowly, the demand is less than the manufacturers' capacity, and some trade journals see a period of unemployment. Cancellations are numerous. District No. 8 (St. Louis) reports that old business on hand is in large volume and while there have been cancellations and hesitation in new business, there is still plenty of trade. Some price reductions have been made. The paint and varnish industry is prosperous and the demand very great, with transportation the chief obstacle.

In other manufacturing lines there is considerable variation. Men's clothing is perhaps more depressed than any other industry. Buyers are holding off in anticipation of lower prices. From District No. 3 (Philadelphia) it is reported that higher prices are expected as production costs do not warrant reductions. Operating conditions are fairly satisfactory and the demand of labor for higher wages and shorter hours has abated. In District No. 4 (Cleveland) the clothing trade and the cloak trade have canceled their orders very heavily during the past two months and many have closed their factories for a week at a time, while most are now operating on a three-day week basis. In drugs and chemicals much improvement is reported from the middle west. In a general way, orders for future delivery on manufacturers' books are large and sufficient in most cases to insure capacity operation for several months to come, but new business is coming in more slowly and there is a very general disposition to cancel orders.

The situation in the cotton textile field continues uncertain. The market for cotton yarns is unsettled. In the Philadelphia district surplus stocks are being sold at some sacrifice for practically whatever they will bring. The outlook when trading is resumed on a large scale is problematical, depending largely on the coming cotton crop. In cotton goods, the public stand against high prices is having an important influence. Manufacturers of cotton goods are in some cases closing their plants, although many concerns are continuing on old orders which should keep them running until late in the autumn. In knit goods the market is still in a condition of stagnation, while hosiery and underwear manufacturers report a total absence of buying. Labor, nevertheless, continues insistent upon high wages. There has been a slowing down of activity in District No. 1 (Boston). This is reflected in decreasing consumption and spindleage. Consumption has fallen from about 212,000 bales in March to 194,000 bales in May. Consequently mills have not been placing orders for raw cotton, except in sporadic cases. Export trade for the past two or three months has been very poor.

Adjustment of the wool market is now in progress and during the past month there has been complete cessation of buying. No established price for raw wool exists. The situation in the woolen and worsted yarn industry is causing grave apprehension to manufacturers. Lack of confidence is reported throughout the textile industry in District No. 3 (Philadelphia). Collections are poor and transportation is very unsatisfactory. District No. 1 (Boston), after noting that of the 674,000,000 pounds of wool purchased by the Government at the time we entered the war, there was left at the date of the armistice about 437,000,000 pounds goes on the review the existing situation as follows:

All the best grades have been sold but the Government still has about 61,000,000 pounds graded from mediums to the low cross-breds of which about 40,000,000 pounds is stored in Boston and vicinity and the balance scattered throughout the country, a considerable amount of this being in New York, Philadelphia, and Chicago. At the last auction of Government wool, held June 10, when 7,000,000 pounds were offered, only about 6 per cent was sold at upset prices which practically amounted to the same prices as at the previous month's sale. The dealers, being well stocked with medium and lower grades, have not been in the market for several months past. At the last sale of British wools, held in Boston the latter part of May, there were practically no bidders and what was sold is said to have been bought at from 15 to 30 per cent less than previous sales, a condition which also prevailed in the London market.

Boston dealers say there is evidence of the existence at this time of great quantities of wool in the world. It is estimated that Great Britain owns 1,500,000 bales all paid for, and that Australasia, including New Zealand, has a considerably larger amount, including this year's clip. This condition has been brought about by such countries as Germany, Austria, and Russia being out of the market for a long time past, while France and Belgium own no wool, buying as they need it. The mills of the last two mentioned countries are said to be operating at from 75 to 80 per cent of pre-war times. It is claimed that

Great Britain is the only country extending any large amount of credit to Germany, last month granting at least $75,000,000.

Many New England mills are now, and for the past two or three weeks have been, operating three days a week, some are shut down entirely and it is said that others will close altogether or go on a three-day basis. Nearly all, if not all, the mills have had large cancellations of orders and have not therefore, been in the market for wool during the past two months and it may be some time to come before they will place orders. Consequently, the wool dealers are doing no business and this condition prevails throughout the country.

During the month an important conference was held between the Federal Reserve Board and representatives of wool growers. At the close of the conference, the Board authorized the following statement with reference to methods to be employed in financing this year's crop.

A wool grower may ship his wool to one of the usual points of distribution, obtaining from the railroad a bill of lading for the shipment; the grower may then draw a draft against his bank, for such an amount as may be agreed upon by the grower and the bank, secured by the bill of lading. The Federal Reserve Act authorizes any member bank to accept a draft secured in this manner at the time of acceptance, provided that the draft matures in not more than six months from the time of acceptance. After acceptance such a draft bearing the endorsement of a member bank is eligible for rediscount or purchase by a Federal Reserve Bank, provided, that it has a maturity of not more than three months from the date of rediscount, or purchase.

The volume of retail trade has continued large, due in part to the movementfor reduction in retail prices which commenced in May. This movement has been universal, although in certain districts, for example, Dallas, not nearly so general or widespread as in the north and east. While the movement was aided by refusal on the part of the public to pay the high prices prevailing, as well as to the difficulties in financing high priced stocks, a counterbalancing factor has been found in the tendency of wholesale prices in large measure to be maintained at current levels, and the opinion has been expressed that the price reduction sales in many cases involved merely anticipation of the customary mid-season clearance sales. Stocks in certain cases are reported to have been considerably reduced, and in the Richmond district it is stated that "quite a number of stores have already stopped the special sales" in consequence. That this has not been the case in all districts, however, is seen from the fact that in New York it is reported that retail trade after the early stimulus of price reductions soon relapsed into the dullness which was manifest in April, the consumer to a large degree returning to his waiting attitude. It is stated that sales of necessities apart from food have declined even more than the sales of luxuries. Retailers are reported to be conservative in the replenishing of stocks, tending to confine purchases to current needs only.

One of the decisive factors in the business situation for the month has been the falling off in building activity as a result of very high prices of materials. This is all the more noticeable because the present is usually the time of greatest activity.

Housing operations have been particularly few in number, especially in some districts in the middle west. In the eastern districts the falling off has been equally severe. Philadelphia reports a total number of building permits in May amounting to 2,624, as against 2,999 for April. In the northwest the reduction has been about parallel to that in other parts of the country. Building permits reported from Minneapolis were 1,764 as compared with 2,008 in April. The slackening in building activity has had a reflex influence upon lumber, a decline in lumber prices having been in effect since February last. The trend of production in the southern pine district is now downward. Stocks have accumulated on account of inability to move them, and price recessions to the extent of about 15 per cent have been reported. A very similar situation exists practically throughout the country. On the Pacific Coast night operations have ceased almost entirely. Unfilled orders have fallen off materially. Building operations on the Pacific Coast were, however, more active during May than during April.

Industrial operations during the month of May and the early part of June have continued to suffer from uncertainty on account of the labor situation. Little relief has been obtained in connection with the labor situation on farms while unrest in some of the basic industries, notably transportation, has been maintained. Sporadic strikes in many parts of the country, and particularly on the eastern seaboard, have been a serious deterrent to the movement of goods and the continuance of manufacturing. Employers are generally feeling that further advances in wages present great difficulty on account of the resistance of the public to further increases in prices. While there is still complaint of low efficiency of labor per unit output, improvement in this particular is reported from various points, especially from District No. 4 (Cleveland). Many strikes in various parts of the country have concerned themselves with the open shop question. On the Pacific Coast, however, the labor situation has improved during the past month, especially in the northwest.

Financially, the month of May has been a period of great interest. The advance in the rate on Treasury certificates of indebtedness to a maximum of 6 per cent, and the raising of rates of discount at various Federal Reserve banks to a 7 per cent maximum have tended to assist materially in the control of credit. The reserve ratio at Federal Reserve banks improved by about two per cent during the month. Conditions in the financial centers have shown comparatively little modification. Call money rates in New York have gone as high as 11 per cent and have continued at that figure for considerable periods. The importation of gold on a small scale has been resumed and a larger movement from Great Britain is now confidently expected. Commercial paper and time money rates have continued high, with money supply scanty, while the pressure from the interior banks upon their city correspondents for accommodations has become more intense as the cost of funds at local Reserve banks has increased. The opinion of bankers, not only in New York but in various other financial centers, is to the effect that the money situation has shown a distinct improvement during the month, and this view is borne out by reports of various Federal Reserve Agents who state that the Federal Reserve Bank policy, aided by cooperation of member banks, is convincing would-be borrowers that there must be a revision of their applications with a view to eliminating all unnecessary or unessential requirements.

Strictly Confidential

MEMBER BANKS COLLATERAL NOTES
SECURED BY GOVERNMENT WAR OBLIGATIONS.

The Act approved September 7, 1916, amended Section 13 of the Federal Reserve Act by adding thereto the following paragraph:

"Any Federal Reserve Bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal Reserve Bank, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act or by the deposit or pledge of bonds or notes of the United States."

This particular amendment was suggested to the Banking and Currency Committees of the House and Senate by the Federal Reserve Board in the Spring of 1916, at a time when little use had been made of the rediscount facilities of the Federal Reserve Banks. Experience had shown that quite a number of the larger member banks could use funds to advantage for a few days at a time and would be willing to secure accommodations from the Federal Reserve Banks for short periods, while they would have no occasion to use the funds for thirty, sixty or ninety day periods, and the banks as a rule were reluctant to offer for discount paper the maturity of which ran longer than the time for which funds were needed. It frequently happened that banks having occasion to use funds for a few days only would not have available paper of very short maturity in sufficient volume to satisfy their requirements and in order that the Federal Reserve Banks might be in position to respond to the short time needs of member banks the Board suggested the foregoing amendment.

Before Congress had taken action, however, and as the summer advanced, it became more and more evident that the United States might be drawn into the World War, and in order to be in a position to facilitate Government financing in such an event the Board suggested that member banks' fifteen day collateral notes might be secured also by the deposit or pledge of bonds or notes of the United States. Up to May, 1917, member banks' collateral notes discounted by Federal Reserve Banks were secured almost entirely by "notes, drafts, bills of exchange or bankers' acceptances eligible for rediscount or purchase", but since the issue of the first series of Treasury Certificates of Indebtedness and of the first Liberty Loan, member banks' collateral notes have been secured almost entirely by bonds and notes of the United States.

It seems, therefore, that it would be proper to divide member banks' fifteen day collateral notes into two classes; (1), those secured by "notes, drafts, bills of exchange or bankers' acceptances eligible for rediscount or purchase", and (2), those secured by "bonds and notes of the United States". With respect to the first class, it is evident that such notes are offered by member banks for the purpose of securing short time accommodations for the exact time the funds are needed. Where credit is required for a longer time a member bank would endorse the "notes, drafts, bills of exchange or bankers' acceptances" and rediscount them with the Federal Reserve Bank. Transactions of this kind do not call for any concession in rate and such notes should properly take the rate established for rediscounts of longer maturities.

As to class (2), however, the situation is different. Member banks have always been the purchasers and distributors of Treasury Certificates and they were to a very large extent the purchasers and distributors of the various issues of the Government's war bonds. Pending distribution it was necessary for most of the member banks, and particularly those which subscribed for liberal amounts, to borrow from the Federal Reserve Banks and the fifteen day collateral notes secured by Treasury Certificates, Liberty Bonds and Victory Notes have always been used as a means of getting the needed accommodations from the Federal Reserve Banks.

Paragraph (d) of Section 14 authorizes the Federal Reserve Banks, subject to the review and determination of the Federal Reserve Board to establish rates of discount "for each class of paper" and while the banks may classify paper according to maturity or according to the character of security, they cannot draw any distinction between notes secured by the same class of collateral. Thus a Federal Reserve Bank may establish one rate of discount for member banks' collateral notes secured by commercial paper eligible for discount and another rate of discount on notes secured by bonds and notes of the United States, but it cannot establish two distinct rates of discount on notes secured by notes and bonds of the United States.

Therefore while the purpose of Congress in permitting notes or bonds of the United States to be used as collateral to members banks' fifteen day notes was to facilitate the war financing of the Government, no consideration can be given in establishing discount rates for such paper to the circumstances attached to the ownership of notes and bonds of the United States by borrowing banks. It follows, therefore, that if a preferential rate of discount should be established for notes of class (2), member banks could avail themselves of the opportunity thus afforded of securing commercial accommodations at the lower rate, and an incentive would be given to the borrowing of bonds by member banks and there would be danger of an undue expansion of credit.

But while a Federal Reserve Bank cannot establish differential rates on paper of a given maturity having the same security, it is not prohibited by law from adopting the policy of receiving certain notes for discount and declining to consider application for discount of other notes. Therefore it would seem in the present circumstances that a Federal Reserve Bank might properlydivide member banks' collateral notes into two classes as outlined above, and discount class (1), that is, notes secured by eligible commercial paper, at the current market rates for thirty day paper, and decline to receive for discount notes of class (2), that is, notes secured by bonds and notes of the United States, unless the bonds and notes of the United States are actually owned by the borrowing bank and are directly connected with the war financing of the Government. As Treasury certificates are being issued to take care of the floating obligations of the Government arising out of the war, and as the purchase of these certificates by the banks is an accommodation to the Government, member banks' promissory notes secured by such certificates, having not longer than fifteen days to run, should be taken freely and there can be no objection to a preferential rate on paper of this class. The Board's policy has been to approve the same rate on paper secured by Certificates of Indebtedness as the certificates themselves bear.

This leaves to be considered member banks' promissory notes secured by the various issues of Liberty Bonds and Victory Notes. The Board has never approved any preferential rate on member banks' collateral notes which were secured by bonded obligations of the United States other than bonds issued since April, 1917, but has taken the position consistently that the preferential rates given to notes of this class are for the accommodation of the Government in its war financing. In some districts there are many member banks which for patriotic reasons subscribed heavily to the Government war bond issues and some of them have not liquidated their holdings of such bonds to an extent which would relieve them of the necessity of borrowing from the Federal Reserve Banks on them. There are cases also where member banks have liquidated entirely their original subscriptions to Government bonds and have repurchased bonds for the sake of investment at the lower rates now prevailing in the market, or where member banks have borrowed bonds from their customers and have used them as collateral to fifteen day notes for the purpose of obtaining funds with which to make commercial loans.

There does not seem to be any reason why a Federal Reserve Bank should receive for discount member banks' collateral notes which are secured by borrowed bonds or bonds bought purely for investment, and the inquiry is therefore made whether your Federal Reserve Bank would care to adopt the policy of declining to discount for member banks their fifteen day collateral notes when secured in this manner and announce that hereafter it will be its policy to confine such transactions only to offerings of notes which are secured by Liberty Bonds and Victory Notes, actually subscribed for in good faith by the borrowing bank before the allotment of the final issue of Government war bonds, that is, the Victory Notes.

The Federal Reserve Banks should also require that all collateral pledged as security to member banks' fifteen day notes have a market value at least equal to the face of the note. Therefore in discounting member banks' collateral notes secured by Liberty Bonds and Victory Notes actually subscribed for and owned by the member bank, a Federal Reserve Bank should require, first, that such notes be secured by an amount of such bonds, the face value of which is equal to the amount of the note, and second, that the deficiency between the market value of such bonds and the face of the note be covered by the pledge of additional notes or bonds of the United States, or by the pledge of notes, drafts, bills of exchange or bankers acceptances eligible for discount or purchase by the Federal Reserve Banks.

In consideration of all the attendant circumstances and in further consideration of the fact that by the limitations above outlined, it is clear that under this plan there can be no use of Government war obligations as collateral to member banks' fifteen day notes for the purpose of securing commercial accommodations at reduced rates, and therefore no additional inflation or expansion of credit, it would be proper for a Federal Reserve Bank to bear in mind the circumstances under which the bonds pledged with it are acquired and to make a liberal concession in the discount rate on such paper, that is, on member banks' fifteen day promissory notes secured by Liberty Bonds and Victory Notes actually subscribed for and acquired from the Government by the borrowing bank, or taken before the final allotment of Victory Notes, from borrowing subscribers in default. In the Board's opinion, however, it would not be wise to make the rate on paper of this classification uniform with the rate borne by the bonds, for there should be no incentive to the borrowing banks to hold bonds as a basis of collateral to loans indefinitely. It has been suggested that where the notes are secured by Victory Notes which bear 4-3/4% interest that the rate of discount be 5% and where notes are secured by Liberty Bonds bearing 4-1/4% interest that the rate of discount be 4-1/2%. It is further suggested that a Federal Reserve Bank, if it should adopt the foregoing policy and schedule of rates, should inform its member banks that they will be expected in view of the favorable rate accorded them to make a reasonable reduction in the amount of such notes at the end of each fifteen day period. The member banks could well afford to make this reduction equal at least to the amount of interest saved.

It is clearly impracticable to give any preferential rate to customers' notes which are secured by Liberty Bonds. This would open up avenues for too large an extension of credit when the large volume of Liberty Bonds outstanding is considered. A Federal Reserve Bank, therefore, should continue to discount for member banks customers' notes secured by Liberty Bonds and Victory Notes at the established commercial rate. Such customers' notes, however, ought not to be used as collateral to member banks' fifteenday notes of class (2).

July 3, 1920.

FEDERAL RESERVE BOARD

WASHINGTON

July 13,1920.
X-1975

Subject: Proposed Legislation Permitting Establishment of Branches of Foreign Banks.

Dear Sir:-

I enclose herewith for your information copy of a letter from the Secretary of the Treasury relating to a resolution which was adopted at the Second Pan-American Financial Conference held here in January last.

Will you kindly advise the Board of the views of your Executive Committee, first, as to the propriety of the proposed legislation and, second, as to the possibility of its enactment by the Legislatures of those States in your District in which foreign banks would be likely to establish branches.

Very truly yours,

Enclosure.

Governor.

To Chairmen of all F.R. Banks.

Copies to all Governors.

July 12,1920.

X-1975 a

My dear Governor:

On January 23, 1920 the Second Pan American Financial Conference adopted the following resolution:

> WHEREAS Banks, both National and State, in the United States, have established branches in various Latin American countries; and
>
> WHEREAS, Restrictions exist under the laws of various States of the United States, which in effect prevent the operation of branches of foreign banks within their jurisdiction;
>
> THEREFORE, We recommend that the legislation in such States be so modified as to permit the establishment of branches of banks of Latin-American countries, under proper regulations, so as to secure equality of treatment.

The Central Executive Council of the Inter-American High Commission, the body which is charged with carrying into effect the recommendations of the First and Second Pan American Financial Conferences, held a meeting on June 14, 1920 in my office, with a view to consider the action to be taken on each of the resolutions adopted at the Financial Conference. It was suggested that the resolution on the establishment of branches of foreign banks might be transmitted to the Governors of the several States with a view to its consideration by the Legislatures of those States having a commercial interest in the matter.

I may mention in this connection that a bill was recently passed by the Legislature of New York, but vetoed by the Governor, aiming to permit the establishment of branches of foreign banks. A copy of that bill is attached, as well as a copy of the communication from the Superintendent of Banks of the State of New York, upon which the Governor based his veto. Before taking any action I should like to draw the matter to the attention of the Federal Reserve Board and to request the Board to make an inquiry into the merits of the proposal and the best method of bringing about its adoption if thought desirable. If the suggestion is agreeable to the Board, I should be pleased to have the benefit of the results of such inquiry together with the Board's recommendations. It is a matter of far reaching importance, raising, as it must, the question of the operations of banks in states of the United States other than those in which they have been organized, and for that reason I think the question should first receive the careful study of such competent authority as the Federal Reserve Board.

Sincerely yours,

(Signed) D. F. HOUSTON.

Secretary.

Honorable W.P. G. Harding,

Governor, Federal Reserve Board,

Washington, D.C.

FEDERAL RESERVE BOARD

WASHINGTON

July 15,1920.

X-1977

Subject: Foreign and International Banking Institutions; Report of Condition as of Close of Business June 30,1920.

Dear Sir:

Under authority of the agreement entered into by your corporation with the Federal Reserve Board, you are hereby respectfully requested to furnish the Board with a report of condition, as of close of business June 30,1920, giving in detail all assets and liabilities of your corporation and the data asked for in the accompanying memorandum.

Kindly arrange to file the report of your Head Office as soon as possible. Separate reports of branches and affiliated banks should be sent as soon as they are received by you. It will be appreciated if, after the reports have been received from all of your branches and affiliated banks, you will have prepared a consolidated statement for your corporation to be sent to the Board.

While the Board has ruled that no specific reserve has to be carried by foreign branches or affiliated institutions of American banking corporations against deposits abroad, it, nevertheless, wishes to be advised as to the average reserve carried by all such branches and affiliated institutions or corporations which are operating under agreement with the Federal Reserve Board. You are, therefore, requested to have each of your branches, agencies, offices and subsidiary banks furnish you, for transmission to the Board, a report of the average reserve carried during the month of June, 1920, against deposit liabilities in the form shown in the accompanying memorandum.

Kindly acknowledge receipt.

Very truly yours,

Enclosure.

Assistant Secretary.

X-1977 a

REPORT OF CONDITION TO FEDERAL RESERVE BOARD.

The following information is desired in connection with the report of condition to be made as at close of business June 30,1920.

- - - - - - - - -

A. HEAD OFFICE

1. Detailed balance sheet showing all assets and liabilities, including contingent liabilities.

2. Amount of loans and discounts, divided: Secured - Unsecured
   (a) Demand
   (b) Time
   (c) Overdrafts and other advances
   Total

3. Detailed list of investments (including stock of affiliated institutions) showing:
   (a) Issuing Government or corporation
   (b) Interest rate
   (c) Maturity
   (d) Par value
   (e) Book value
   (f) Approximate market value -

4. Ownership of stock of affiliated institutions:
   (a) Per cent owned by yourselves
   (b) Per cent owned by foreign Governments
   (c) Per cent owned by individuals and corporations

5. List of banks, branches, etc. having balances due to your corporation with amount for each bank separately:
   (a) Government bank
   (b) Local banks (exclude subsidiary banks, if any)
   (c) Other banks (" " " " ")
   (d) Branches, agencies, offices and affiliated institutions.

6. List of banks, branches, etc. having balances due from your corporation with amount for each bank separately:
   (a) Banks and bankers
   (b) Branches, agencies, offices and affiliated institutions

7. Bills payable:
   (a) Payable to:
   (b) Amount
   (c) Interest rate
   (d) Maturity
   (e) Collateral - give list

8. Rediscounts:
   (a) Amount
   (b) Maturity
   (c) Rate
   (d) With whom
   (e) secured or unsecured - if secured, give detailed information regarding security.

9. Reserve Statement:
   Deposits in the United States:
   (a) Net demand deposits (after deducting uncollected demand items payable within United States - exchanges)
   (b) Time deposits
   (c) Reserve held:
   Cash on hand
   Bank balances__________
   Total
   Per cent of reserve -

10. Acceptances - limitations:
   (a) Acceptances outstanding:
   1. Maturing in 30 days or less $
   2. Maturing after 30 days. $__________
   Total outstanding acceptances. $
   (b) Capital and surplus $__________
   Excess a over b $

   Acceptances secured $
   Acceptances unsecured $
   Amount required to be secured under agreement with Federal Reserve Board $
   (Give list of security held as required above giving description and approximate amount)
   (c) List of drawers of drafts accepted, with total aggregate liability in excess of 10 per cent of capital and surplus.

Name	Address	Business	Aggregate Liability	Security* or Guaranty

   (d) Reserve against outstanding acceptances:
   Required: 15% against all acceptances outstanding which mature in 30 days or less; and
   3% against all acceptances outstanding which mature in more than 30 days.
   1. Cash (**)
   2. Bank balances - (Head Office city) (**)
   3. Bankers acceptances
   4. Securities approved by Federal Reserve Board (List in detail)__________
   Total

(**) These amounts, of course, must not include those appearing in 9-(c) as part of your reserve against deposits.

(*) If security, state what the security consists of, giving quantity and approximate value; if a bank guaranty, give name and location of bank.

11. General limitations:

    (a) Total deposits and acceptances outstanding
    (b) Capital and surplus

    Per cent deposits and acceptances outstanding to capital and surplus ____________

    Limit fixed by Federal Reserve Board against aggregate deposits and acceptances outstanding____________

12. List of officers and directors.

13. List of stockholders, showing number of shares owned by each.

14. List of branches, sub-branches, agencies, offices and affiliated institutions - date of opening of each and the location.

15. Date of last examination or audit - by whom made.

B. <u>Branches, Agencies and Subsidiary Banks and Corporations</u>.

1. Balance sheet to be furnished by each, showing in detail all assets and liabilities, including contingent liabilities, as at close of business June 30, 1920.

2. Amount of loans and discounts, showing: Secured - Unsecured
    (a) Demand
    (b) Time
    (c) Overdrafts and other advances.

3. Detailed list of investments, showing:
    (a) Issuing Government or corporation
    (b) Interest rate
    (c) Maturity
    (d) Par value
    (e) Book value
    (f) Approximate market value

4. Amount of balances due from: (Name of bank and amount for each)
    (a) Government bank
    (b) Local banks
    (c) Other banks - (exclude head office and affiliated banks)
    (d) Head Office
    (e) Other branches, agencies and affiliated institutions

5. Amount of balances due to: (Name of bank and amount for each)
    (a) Banks and bankers (exclude Head Office)
    (b) Head office
    (c) Other branches, agencies and affiliated banks

6. Bills payable:
    (a) Payable to
    (b) Amount
    (c) Interest rate
    (d) Maturity
    (e) Collateral (Give detailed list)

7. Rediscounts:
   (a) Amount
   (b) Maturity
   (c) With whom
   (d) Rate
   (e) Secured or unsecured - if secured, give detailed data

8. Deposits:

	Dollar Equivalent
(a) Government deposits (if secured give list of collateral)	
1. Demand	
2. Time	
Other deposits	
3. Demand	
4. Time	
Total	
(b) Deposits - how payable:	
1. Local Currency	
2. Dollar	
3. Sterling	
4. Otherwise	
Total	

9. Special Reserve Statement - average for the month of June, 1920

(a) Net deposits:
   1. Payable in local currency
   2. " in dollars
   3. " in sterling
   4. " otherwise
   Total

(b) Reserve:
   1. Amount, if any, and composition required by local laws.
   2. Amount held:

	Amount	Per cent to net deposits
(a) Gold and silver	$	%
(b) Local currency......		
(c) Other cash..........		
(d) Balance in local.... Govt. bank.......		
(e) Other reserve funds		
Total		

10. Date of last examination or audit - by whom made.

NOTE: 1. Where a schedule does not refer to your corporation, please indicate this by inserting the word "None".

2. Reports for foreign branches, agencies, etc., should be in terms of United States money, stating the rate of exchange at which they were converted.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

July 15,1920.
X-1978

Subject: Tax Exemptions on Telegraph and Telephone Service.

Dear Sir:-

There are enclosed herewith 300 blank forms (which have been approved by the Commissioner of Internal Revenue) for use by Federal Reserve Banks in claiming exemption, under the provisions of Section 7 of the Federal Reserve Act, from Federal tax imposed upon telegraph and telephone service by Section 500 of the Revenue Act of 1918. These forms, when properly filled out, will entitle your Bank to exemption from the Federal tax on all telegraph and telephone service rendered to it, including leased wire telegraph and telephone service, individual telegraph and long distance telephone messages, and local telephone service, providing, of course, that the charges have been incurred in the performance of the official duties of your Bank and are to be paid by it.

It is suggested that preparatory to the use of these forms your Bank advise the telegraph and telephone companies which are under contract to render telegraph or telephone services to it that in the future these forms will be used in claiming exemption from the tax on telegraph and telephone services, and request that when bills are rendered to cover the charge for these services, the amount of the charge and the amount of the tax be itemized separately so that the certificate form may be properly executed.

Very truly yours,

Enclosure.

Assistant Secretary.

To Governors of all F.R. Banks.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

July 16,1920.

X-1980

Subject: Cashing Government Warrants and Checks Drawn on the Treasurer of the United States for Disbursing Officers.

Dear Sir:-

Referring to the Board's letter of June 7, 1920, X-1944, on the subject of "Comments by the Federal Reserve Board on recommendations made by Governors of Federal Reserve Banks at their conference with the Federal Reserve Board, April 7th-10th, 1920", and with particular reference to the discussion by the Board of Topic 4, "Cashing Government warrants and checks drawn on the Treasurer of the United States for disbursing officers", one of the Federal Reserve Banks has made inquiry as to the protection afforded a Federal Reserve Bank, by telegraphing to the Treasurer of the United States as to whether or not the balance to the credit of a particular disbursing officer is sufficient to meet his check presented for payment at the Federal Reserve Bank, in the event this disbursing officer has other checks outstanding which might be presented at Washington for payment prior to receipt by the Treasurer of the check cashed by the Federal Reserve Bank and which would exhaust his balance with the Treasurer of the United

States. There is quoted below reply received from Assistant Treasurer of the United States with reference to this inquiry:

"In compliance with your request of July 12, the following is submitted relative to the methods used in reserving sufficient balance in the account of a disbursing officer to make payment on a check which has been certified to a Federal reserve bank requesting information as to sufficient funds to make payment thereon.

"When such request is received from a Federal reserve bank, notation of the amount of such check is made on the ledger account of the disbursing officer and that part of the balance is held in reserve to meet the check.

"If the Treasurer's officer, subsequent to the telegraphic advice given Federal reserve banks, should receive checks from other sources which would not leave a sufficient balance in the officer's account to meet the check which has been certified to a Federal reserve bank, payment on checks received from other sources would be refused and the Federal reserve bank, paying upon the Treasurer's telegraphic advice, would be thoroughly protected.

"This work has been thoroughly systemized so that these certifications are followed up and if, for any reason, the bank requesting the certification of the check does not present it in due course, the matter is adjusted by correspondence with the bank. In other words, the Federal reserve bank that pays on telegraphic advice that balance in officer's account is sufficient, is as thoroughly protected as if the check were presented and immediately charged in the account of the drawer."

Very truly yours,

Assistant Secretary.

To Governors of all F.R. Banks except Kansas City

FEDERAL RESERVE BOARD

WASHINGTON

X-1982

July 21, 1920.

SUBJECT: EXPENSE MAIN LINE LEASED WIRE SYSTEM, FOR THE MONTH OF JUNE, 1920.

Dear Sir:-

Enclosed herewith you will find two mimeograph statements, X-1981 and X-1979, covering in detail operations of the Main line leased wire system during the month of June, 1920.

Please deposit the amount payable by your bank in the general account, Treasurer U. S., on your books, and issue C/D, Form 1, National Banks, for Credit of "Salaries and Expenses Federal Reserve Board, Special Fund", leased wire system, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enc.

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JUNE 1920.

From:	BANK BUSINESS	PER CENT OF TOTAL BANK BUSINESS(*)	FISCAL AGENCY	WAR FINANCE	TOTAL
Boston	51,463	3.95	6,900	-	58,363
New York	221,829	17.01	25,750	1,582	249,161
Philadelphia	45,927	3.52	6,558	-	52,485
Cleveland	96,055	7.36	16,899	-	112,954
Richmond	80,033	6.14	4,508	-	84,541
Atlanta	108,112	8.28	9,463	50	117,625
Chicago	167,151	12.82	4,999	-	172,150
St.Louis	116,606	8.94	10,042	-	126,648
Minneapolis	42,868	3.29	7,511	-	50,379
Kansas City	105,428	8.08	14,044	-	119,472
Dallas	95,390	7.31	7,142	-	102,532
SanFrancisco	173,525	13.30	21,247	-	194,772
Total F.R. Banks	1,304,387	100.00	135,063	1,632	1,441,082
Washington	251,810		171,618	1,703	425,131
Grand Total	1,556,197		306,681	3,335	1,866,213
Percent of total	83.39		16.44	.17	100

Bank business	1,556,197 words,	or	83.54%
Fiscal Agency business	306,681 "	"	16.46
Total	1,862,878 "	"	100.00

(*) These percentages are used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-1981)

Federal Reserve Board
Washington, July 21,1920.

673

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM
June - 1920

X-1981

Name of Bank	Operators' Salaries	Operators' Overtime	Operators' Extra compensation	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	220.00	2.00	180.00		402.00	715.33	402.00	313.33
New York	640.00	29.00	361.75		1,030.75	3,080.44	1,030.75	2,049.69
Philadelphia	225.00	-	202.50		427.50	637.46	427.50	209.96
Cleveland	450.00	-	231.00		681.00	1,332.87	681.00	651.87
Richmond	141.66	-	170.00	(*)$50.00	361.66	1,111.93	361.66	750.27
Atlanta	217.50	-	281.25		498.75	1,499.48	498.75	1,000.73
Chicago (#)	3,928.26	59.11	(##) 1,715.89		5,703.26	2,321.65	5,703.26	3,381.61 (**)
St.Louis	145.00	25.00	-		170.00	1,619.00	170.00	1,449.00
Minneapolis	216.68	-	234.17		450.85	595.81	450.85	144.96
Kansas City	190.00	-	-		190.00	1,463.26	190.00	1,273.26
Dallas	150.00	-	144.15		294.15	1,323.81	294.15	1,029.66
San Francisco	175.00	-	225.00		400.00	2,408.58	400.00	2,008.58
Federal Reserve Board				7,568.26	7,568.26			
Total	$6,699.10	$115.11	$ 3,745.71	$7,618.26	$18,178.18	$ 18,109.62	$10,609.92	$10,881.31
					68.56&			3,381.61 @
					$18,109.62			$ 7,499.70

(#) Includes salaries of operators Washington office - - - - - - - - -$1,869.98

(##) Includes extra compensation of operators Washington office 823.49

(*) Cut-in at Washington on Richmond-Baltimore circuit

(**) Credit

@ Amount reimbursable to F.R. Bank Chicago account of payment in excess of pro rata share.

& Amount received from War Finance Corporation covering business for the month of May.

JULY 21,1920.

FEDERAL RESERVE BOARD
WASHINGTON

FEDERAL RESERVE BOARD

WASHINGTON

July 23, 1920.

X-1986

Subject: Cash Shipments and Receipts.

Dear Sir:-

If it is feasible for you to compile the information, the Board would like very much to have a statement from each Federal Reserve Bank showing (1) amount of cash (including all kinds of cash combined, not segregated) paid to or shipped to each member bank by months (aggregate for each calendar month being taken as one item), and (2) amount of cash received in like manner, beginning August 1, 1919, and ending July 31, 1920.

The Board would like to have also a statement by months, covering the same period, of (1) Federal Reserve notes received by your bank from the Federal Reserve Agent, and (2) Federal Reserve Bank notes received from the United States Treasury at Washington.

Hoping that it will be practicable for you to furnish this information, without too much trouble, I am

Very truly yours,

Governor.

To Governors of all F.R. Banks.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

For release in morning papers,
Friday, July 30,1920.

X-1987

July 28,1920.

The following is a review of general business and financial conditions throughout the several Federal Reserve Districts during the month of July, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Uncertainty and the continuance of industrial transition have been the characteristic features of the month of July in the business field. Some districts report that the price-cutting movement begun in May and continued through June is slowing down, while in other districts reduction of prices is reported still in progress. Industrial activity in many lines has been shortened in consequence of lowered demand, cancellation of orders and general readjustment. In some districts, however, production continues upon old orders which are still on the books, despite the fact that new business has fallen off. In the agricultural regions, improved crop conditions and the development of a more confident tone in business are reported to have brought about a turn distinctly for the better. Speculation in commodities is in many parts of the country reported to have been greatly reduced and in some practically eliminated. There is a general feeling that extravagant buying is at least less extreme and dangerous than it was some time ago, while labor in many parts of the country is reported as increasing in efficiency and a better spirit of cooperation exists between employer and employee. From the credit standpoint there is general expression of the belief that unessential demands have been reduced and that even where there has been no lessening in the volume of loans the advances that are being currently made are in a much greater proportion than those which grow out of bona-fide commercial and agricultural necessities than at any time for many months past. Transportation continues to be perhaps the least satisfactory phase of the month's development, and while there has been some improvement in a number of parts of the country it is still true that there is great congestion and that in consequence of it an undue and unnecessarily severe strain has been brought to bear upon credit for the purpose of making possible the carrying of goods which would otherwise have gone to market and would have been liquidated.

District No. 1 (Boston) reports that "transportation difficulties constitute one of the most important factors in the present credit and industrial situation in New England; * * * * liquidation of consumable commodities * * * which has been so marked during the past few months continues, but * * * shows signs of shortly running its course; * * * * a certain amount of increasing efficiency on the part of workers * * * has been noted."

District No. 2 (New York) reports that the expansion of loans and rediscounts "has been very largely checked", while "production has continued at a very high level" "business failures continue low" and "the money market has in no wise relaxed its stringency."

Stock Exchange money conditions are "decidedly tense" and conflicting tendencies in the export situation are noted.

District No. 3 (Philadelphia) reports that "industrial activity in many lines has slowed up during the past few months; * * * the textile industry has been seriously affected; * * * iron and steel and the allied * * * lines are sorely tried by the transportation situation" and that "the most encouraging factor * * * is the improving attitude of labor."

District No. 4 (Cleveland) finds that "conditions continue to improve", but there has been "no appreciable lessening of the credit strain". Business, however, "has become unnecessarily apprehensive; the situation is still somewhat confused; we are not yet out of the woods." Tight money conditions have forced realizing sales, collections are less satisfactory, and commercial failures somewhat more numerous.

In District No. 5 (Richmond) "collections are increasingly slow. The price-cutting movement * * * was less marked than during the preceding month * * *. The most encouraging development of the month was the striking improvement in crop conditions."

According to District No. 6 (Atlanta) there has been a "strengthening of the determination on the part of the public to delay buying. * * * Deflation is definitely under way * * * and with the return to a price basis more nearly normal confidence will be restored."

District No. 7 (Chicago) states that the car situation is "still a dominant factor" while "labor difficulties are becoming a more important consideration. Borrowing at banks continues in large proportions; * * * the demand for credit is very large and there is little prospect of relief from the high rates." Growth of farm land and city real-estate sales has been checked. There is a slowing down in manufacturing.

District No. 8 (St.Louis) finds that "general business * * * has been well sustained" but that "some lines show a reactionary tendency, others holding steady, while a few record broad gains." The markets for staples "are more sensitive" and "the period of extravagant buying is over." There is a feeling that prices "may sustain a sweeping revision downward." Improvement in crops "has continued". The purchasing power of the public has not declined.

In District No. 9 (Minneapolis) crop prospects have improved, "labor conditions are not threatening, as was expected early in the year, "there is a serious lack of grain storage, despite "an improvement of about one-third in the number of cars forwarded during June as compared with May." Lake fuel receipts are only 36.7 per cent of a year ago, and moderate credit liquidation is proceeding.

District No. 10 (Kansas City) reports that "many lines of activity * * * are now experiencing midsummer quiet. * * * In the face of the slowing down of trade and industry there is a feeling * * * that the good crops * * * are bound to make good business, * * * There are evidences to show that production * * * is increasing and there is a reported tendency toward price recessions."

From the 11th District (Dallas) it is reported that "improved crop conditions, the passing of the spirit of hesitancy and suspense, * * * the growth of a more optimistic view on the part of business and banking interests, * * * have all contributed to the development of a brighter outlook." Mercantile transactions are quiet but labor conditions have been improving. There is a prospective shortage of grain cars.

The 12th District (SanFrancisco) reports that the condition of crops is practically unchanged, a reasonable supply of cars for the fruit crop has been obtained, but there is car shortage in connection with lumber. Building continues active. There has been some falling off in wholesale trade. Prices are not lower.

Probably the most hopeful element in the outlook during the month has been the continued improvement in crop prospects in general, and the special improvement seen in certain important agricultural lines. The 9th District (Minneapolis) reports both winter and spring wheat in a healthy condition, with the prospect of a yield considerably above normal and an indicated yield of 186,000,000 bushels of spring wheat, 7,500,000 bushels of winter wheat and 273,500,000 bushels of oats. The 10th District (Kansas City) estimates a combined crop of winter and spring wheat of 260,000,000 bushels, with oats at 185,000,000 bushels and corn at 400,000,000 bushels. In the middle west generally the crop output is improving and in many sections corn "never looked better". Wheat and oats also hold out excellent prospects. District No. 8 (St. Louis) reports wheat low in quantity but high in quality, corn in favorable condition, oats bearing out optimistic estimates and hay the most satisfactory ever raised in the region. Cotton is improving and labor conditions better than expected. The combined condition of all crops in the district as reported by the Department of Agriculture is 95.8 per cent. On the Pacific Coast spring wheat is now estimated at about 50,000,000 bushels or 10,000,000 bushels more than 1919. The special local crops, such as beans, sugar beets and others are particularly promising, but the rice crop has received serious injury. Favorable weather during the past month has considerably improved the condition of deciduous fruits in the northwest. Oranges will be considerably lower than last year, lemons about the same. The price of vegetable oils has declined considerably.

In live-stock conditions appear to be exceptionally good the country over. District No. 10 (Kansas City) reports excellent pasturing conditions but states that prospects for any material increase in the supply of animals during the autumn and winter are not encouraging because of the length of time required to build up the industry after the inroads suffered during the war. The 11th District (Dallas) reports excellent range conditions, with stock making satisfactory progress practically throughout the district and prices materially higher at the close of June. In other parts of the country the live-stock situation is also encouraging. Receipts of cattle at 15 primary markets during June were 1,290,265 head, corresponding to an index number of 128, as compared with 1,209,656 head during May and 1,122,762 head during June, 1919, the respective index numbers being 120 and 111. Receipts of hogs amounted to 2,746,390 head during June, corresponding to an index number of 125, as compared with 3,128,249 head during May, and 3,061,638 head during June, 1919, the respective index numbers being 142 and 139. Receipts of sheep for June were 1,006,528 head, as compared with 796,160 head during May and 1,116,003 head during June, 1919, the respective index numbers being 74, 58, and 82. In the 10th District (Kansas City) the movement of live-stock to the markets in June was less than in May and less than in June of last year, but trade in cattle was more encouraging to shippers than in any previous month of this year. Purchases of cattle by packers during June were smaller than in May or in June of last year, but prices have improved in most branches of the business, except sheep. In the 11th District (Dallas) there was a heavy movement of cattle and hogs to market during June, figures in some lines reaching record proportions. Prices at Fort Worth registered a sharp recovery during June and this tended to enlarge subsequent shipments, the influx of animals weakening the market so that by the opening of July much of the gain recorded has been lost. The hog market, however, reached the highest point since last November. Gross receipts both of cattle and calves were larger than in May or than in June 1919, while hogs and sheep fell off as compared with both preceding periods.

The movement of grain has been retarded by the car shortage situation. In the 9th District (Minneapolis), however, there was an improvement of about one-fourth in the number of cars for grain and flour forwarded as compared with the month of May, and the number of cars received was about the same. The very moderate improvement over May was the result of strenuous efforts to secure empty grain cars by virtue of the priority orders. Wheat receipts at Minneapolis during June show a falling off of 3 per cent from the May figures, and receipts of corn show an increase of 11.8 per cent. The movement of wheat and corn during the present crop year commencing September 1, 1919, has been substantially the same as during the preceding crop year, but the movement of the other grains is about 43 per cent of the movement of the previous year. Price declines were noted in Minneapolis during June for grain and flour, with the exception of oats and barley, which showed slight increases.

The wool and woolen outlook has been of special importance during the past month. In raw wool the inactivity which has been characteristic during the past six weeks continues and the market has become entirely a buyer's market. The raw wools are in numerous instances being quoted at 30 per cent below the level of last January in District No. 3 (Philadelphia). In District No. 1 (Boston) dealers in raw materials are placing practically no orders and such wool as is going into the market is being received on a consignment basis. "It is still felt * * * that with more wool in the world than was ever before known, prices have not yet reached bottom." Goods returned to the mills together with cancellations are estimated at $100,000,000. An encouraging feature in the situation is the willingness of wool dealers to extend longer time and to accept cancellations of orders. In the woolen and worsted goods industry, yarn spinners are having but few inquiries for their product, while for finished textiles conditions are equally discouraging. In the 3rd District (Philadelphia) "there is no demand for the product and the closing of plants is general * * *; while some manufacturers feel that activity will be resumed in the early fall, others have no hope for a decided improvement in conditions until after the presidential election. Nevertheless it is believed that "when business is resumed * * * manufacturing conditions should be much more favorable than those prevailing during the first six months of the year. The raw material supply is plentiful and lower in price and labor conditions show signs of real improvement." Collections in the industry generally are slowing up. The strain however, has, on the whole, been well borne by the industry.

In cotton goods there has been a reduction of activity. In the Massachusetts cotton-milling region demand continues light, many mills reporting supplies of raw cotton sufficient to last until next year. The better crop prospects in the south have reduced any anxiety that was felt concerning prospective scarcity. Prices are about 50 per cent more than in 1914 for the best grades. In the 3rd District (Philadelphia) little or no interest is shown by cotton yarn interests in the raw staple while manufacturers are placing few orders for yarns. Curtailment of production is prevalent. Prices for cotton products have been steadily declining and are now on a price level equal to that of last autumn. In New Bedford (Mass.) mills have on hand sufficient cotton to run until the latter part of August. There has been a softening in the yarn market and in Fall River orders are not coming in freely. In Lowell mills are still running on full time. Some houses in different parts of the country have made commitments for fall goods at prices higher than prevailed in the autumn of 1919, while others are refusing to place orders freely. The chances seem to favor a still further reduction of activity in the industry. In "small wares" conditions have not much changed during the past month; prices are about the same, collections are slower and volume of buying is slowing up." Predictions are made that prices of cotton small wares will be higher this fall than last and higher this coming spring than the spring just past. Some concerns however, have begun cutting prices.

The past month has seen but little improvement in the depressed situation existing in leather and shoes a month earlier. Shoe manufacturers are not placing many orders with leather dealers. July is usually a dull period in any case, but the dullness began earlier and is lasting longer this year. A great curtailment of operations both in the manufacture of leather and in that of shoes is noted in New England. Manufacturers, however, on the whole anticipate a brisk autumn business due to delated orders, and they also look for a greater demand for shoes of grades other than the finest. Export shipments are believed likely to fall off. In the 3rd District (Philadelphia) curtailment which exists in the Massachusetts region likewise prevails. There is conflicting opinion throughout the trade as to the outlook, some believing that a sudden autumn demand will spring up, others that retailers are sufficiently well stocked to "carry on" for a good while to come, Manufacturing conditions in the shoe industry are fairly satisfactory. In the middle west "shoe manufacturers have been marking time", and output is only 30 per cent to 40 per cent of that of a year ago, but conditions are considered better than in the east. Retailers' stocks are depleted. In the Virginia shoe producing district manufacturers are not getting their usual orders. Cancellations are still an important factor. In District No. 8 (St.Louis) the shoe industry is now, however, swinging to a more certain basis. Manufacturers and distributers are showing increase in volume and value of business. Cancellations have decreased, raw materials are more abundant and labor is ample. Collections vary a good deal.

The serious condition in which the iron and steel industry is now placed as the result of railroad congestion and shortage of raw material and fuel is illustrated by the statement made by the Cleveland district that "traffic conditions in the iron and steel industry during the past months have reached a more acute stage and have become a matter of constant struggle * * * to keep plants in operation and finished material moving." The piling up of unshipped product in mill and furnace yards has continued and there is also a large tonnage of semi-finished material which is stacked up in work yards. It is estimated that 2,000,000 tons of iron and steel are tied up in the hands of the producers throughout the country. In District No. 4 (Cleveland) there have been few cancellations of unshipped products, but many mills are regulating their operations entirely in accordance with the ability of the buyer to furnish transportation. Thousands of motor trucks have been put into service hauling material from mills to points where cars are available or even to consumers' plants. Crude material production in that district has kept up quite well, but restriction of output applying most severely to the finishing operations. In District No.3 (Philadelphia) the transportation situation has so thoroughly tied up the iron and steel industry that the entire situation centers on the question of getting movement of products. While many plants are running at 100 per cent of capacity, the continuation of the lack of cars will force a reduction, possibly by two-thirds, at the end of another six weeks. Pig iron continues in active demand but it is impossible to procure it in any quantity. If demand were to be taken as a criterion of the outlook, manufacturers would think it excellent, but their stocks of material and fuel have been so seriously depleted that the shipping prospect is very questionable. In the Birmingham District (District No. 6 Atlanta) transportation difficulties are slightly improved, but apprehension still exists as to the supply of raw material. The greater number of sales are in small lots and domestic business is being given practically sole attention. Consumption of pig iron is again showing improvement. Confidence is expressed that the pig iron market will be firm for several years to come and that export business will be substantial. Production during June was 3,043,540 tons as compared with 2,985,682 tons during May and 2,114,863 tons during June, 1919, the respective index numbers being 131, 129 and 91. The unfilled orders of the United States Steel Corporation at the close of June were 10,978,817 tons, as compared with 10,940,466 tons at the close of May, the index number for both months being 208.

The coal outlook is closely connected with the entire manufacturing situation but particularly with iron and steel prospects. In District No.3 (Philadelphia) the car supply is still inadequate, the general situation is discouraging and both domestic consumers and plants face a serious situation. The output in Pennsylvania and West Virginia is 50 per cent of normal, while in Ohio, Indiana and Illinois it is still smaller. Exports of coal which have been mentioned as one cause of the present difficulty are an inadequate explanation, the real source of trouble being insufficient production in relation to demand. Our output for the nation at large is now about 9,000,000 tons of coal per week, but vcurrent demands show a need for 11,-000,000 tons. Prices have been advanced. In the Birmingham district (District No. 6, Atlanta) coal production is still lagging, strikes at domestic mines being partly responsible. There is also an undercurrent of unrest among the coal miners in Pennsylvania with local labor troubles. In District No. 4(Cleveland) the movement of coal is unsatisfactory, shipments to the northwest up to July 1 being more than 5,000,000 tons below the corresponding figure a year ago, and there has been little increase during July. Coke shortage is widespread and the high price of coke has been an important factor affecting the activities of many iron and steel plants. Spot coke has been selling from $18 to $20 at the ovens. Production of bituminous coal during June was 44,462,500 tons, corresponding to an index number of 120, as compared with 39,059,000 tons during May and 38,547,000 tons during June, 1919, the respective index numbers being 105 and 104. The production of anthracite coal for June amounted to 7,754,000 tons, compared with 7,631,000 tons during May and 7,251,000 tons during June, 1919.

More active petroleum exploitation is gradually bringing up the production of crude oil. Pipe-line runs in Oklahoma and Kansas are now beginning to exceed shipments and reserve stocks are getting back to something like normal. This may be partly due to inability of refiners to get tank cars but the output itself is increasing. June was the best month of the year in crude oil production. In the 10th District (Kansas City) the output for that month was worth over $40,000,000 and new wells completed numbered 1,136. In the 11th District (Dallas) June operations however showed a "slump". There were 169 less completions than in May but the total production about 11,500,000 barrels was only about 250,000 below May. In June 650 wells were completed in the 11th District. In the 12th District (San Francisco) the June production was slightly less than in May, being 273,000 barrels per day, while shipments exceeded production, stored stocks declining 120,000 barrels. There is a shortage of gasoline and buyers have raised prices for crude oil.

Metal mining conditions during the month have not been uniform. In District No. 10 (Kansas City) the half-year period ending June 30 shows an increase in the value of lead and zinc shipments over 1919 in spite of adverse productive conditions. Shipments of zinc ores declined during June and there was a tendency to decline both in price and volume of shipments of zinc. Metal mining in Colorado has suffered from a shortage of labor. Little new prospecting is in progress.

One notable feature of the business situation during the month has been a change in labor conditions. An important factor in this connection has been the development of unemployment in various parts of the country. This unemployment has been apparently chiefly due to three factors. Where poor transportation prevented deliveries of fuel and raw materials some plants have been obliged to curtail operations and thereby reduce opportunities for employment pending better conditions; in other manufacturing districts the shutting down of mills as a result of cancellation of orders and lack of demand has also thrown considerable forces of men out of work; elsewhere, inability to obtain capital for construction and consequent abandonment or suspension of undertakings that had been contemplated have produced a certain amount of unemployment with some shifting of workers from one occupation to another. An effect of the changed labor situation, which has been the subject of quite general comment in the various Federal Reserve Districts, is an increase in the efficiency of labor. One of the largest producing companies in District No. 4 (Cleveland) reports the "greatest four months in our history of pounds produced per man." In District No. 1 (Boston) "labor is less insistent in its demands" and during the first half of July only ten new strikes were reported to the Massachusetts Department of Labor, but two of these involving any considerable number of men. During the latter part of June and the first two weeks of July there was a marked decrease in the demand for factory help. The Boston Public Employment Office reports a surplus of machinists, mechanics and general factory workers. Retrenchment in Government manufacturing operations has released some labor. Unskilled labor is also more plentiful than heretofore. In the agricultural regions, however, there is little or no relief from the shortage of farm labor. District No. 6 (Atlanta) reports that all parts of the District are seriously short of farm hands. In District No. 5 (Richmond) there is considerable sporadic unemployment, but this is believed to be due largely to irregular transportation. In the extreme southern part of the country a better supply of agricultural labor has resulted from the slackening of industrial production. In New York there has been a distinct, though not large, increase in unemployment and this is more noticeable than usual at this season in the clothing trades. The labor difficulties at the port of New York have been reduced. Generally speaking, conditions are more stable than they were several months ago. Local shortage of unskilled labor due to the scarcity of immigrant hands is observable. There is less complaint than usual of labor conditions on the Pacific Coast, District No. 12 (San Francisco) reporting "no strikes or labor disturbances of any importance in this District." A notable event of the month has been the decision of the Railway Wage Adjustment Board, which has resulted in awarding a wage increase to railway workers estimated to aggregate $600,000,000, and presumed to represent an average increase of 21 per cent or over for railway employees as a whole, although the increase granted has been greatest in the lower paid grades of employment.

There appears to be no difference of opinion concerning the causes that are responsible for the difficulties that hamper building operations. The hinderances are summed up under the all-inclusive heads of high prices of structural materials and heavy labor costs; transportation troubles that make the securing of supplies problematical; and inability to obtain funds for financing contemplated projects, especially residential structures. It is true that, although all these factors are operative, reports from certain Districts are inclined to stress some one factor while minimizing the importance of others. The situation in the west and southwest appears to be much more favorable than in other parts of the country, Districts No. 11 (Dallas) and No. 12 (San Francisco) both reporting increased activity in the month of June as compared with May. District No. 1 (Boston) emphasizes the shortage of lumber and other structural materials resulting from congested traffic conditions, and predicts that prices will remain high, probably into the spring of 1921. However, the total value of building permits in 13 principal cities outside Boston showed an increase of 47.1 per cent in amount for the first six months of 1920, as compared with the same period in 1919, although the actual number of permits declined from 3614 to 3440. District No. 2 (New York) thinks that the principal deterrent to the execution of housing programs is scarcity of mortgage money, the New York situation being made worse by the fact that industrial projects have secured the limited amount of labor and materials available. District No. 4 (Cleveland), although stating that there has been some improvement in securing raw materials, especially cement, during the last two weeks, through the use of lake vessels, says that building operations are very low for the season and the outlook for the fall is uncertain. In District No. 5 (Richmond) no improvement is noted -- a decrease in value of permits issued as compared with May is recorded. As for building materials, it becomes increasingly difficult to secure them and a number of lumber mills have shut down because of inability to make deliveries, while cement, crushed stone, steel, brick, etc., are practically impossible of acquisition. Cessation of construction in Richmond is threatened unless the local situation is relieved. In District No. 6 (Atlanta) on the other hand, there has been an increase in the value of permits in some of the large cities such as Atlanta, Augusta, Savannah and Mobile. A marked drop in the total volume of building permits in New Orleans was no doubt the result of the local carpenters' strike. In District No. 8

(St. Louis) as a result of better weather and improvement in transportation, work already begun has been resumed or continued, but new projects are few. There is no improvement in the housing situation. Labor troubles have also been experienced. Both in the Minneapolis and Kansas City Districts the June reports show a reduction in building permits by number and value as compared with May. In District No. 11 (Dallas), on the other hand, improvement has occurred in June, an increase of 15 per cent in total valuations over the month of May being noted, although the total is 16 per cent below the record for June a year ago. For the first six months of the year, the 1920 valuations exceeded those of 1919 by 147 per cent. Similarly in the 12th District (San Francisco) building is active, permits issued in 19 cities showing valuation increases of 7.7 per cent as compared with May and 63.3 per cent as compared with June a year ago. For the six month period an increase of 107.17 per cent was recorded.

Financially, the developments of the month show improvement. District No. 2 (New York) reports that "the tremendous expansion in loans and discounts which took place last year has been very largely checked" and that in the New York District it "has been wholly checked." Reports of the Comptroller of the Currency show that up to May 4 some increase in loans was still occurring in the country banks but at a lessened rate than previously. Speculative activity has also subsided. The number of shares sold on the New York Stock Exchange has declined in the past few months to not much more than a quarter of the average activity of last autumn, while bank clearings in New York City have declined about 25 per cent. In District No. 7 (Chicago), while commercial paper commands the highest rate in years, collections are generally good, and speculation not only in stocks and commodities but also in farm lands has been checked, at least temporarily. The activity in banking turnovers is on the decline as compared with June, although larger than in 1919. Borrowing at the banks continues in large proportions and there is no prospect of relief from high rates. In the south there has been some success in eliminating loans on United States obligations, while other loans and investments show a slight decrease up to June 25 and this tendency is apparently continuing. Money rates continue very high. In the principal manufacturing districts there has been no marked change in the credit situation and any surplus credit at one point is immediately absorbed by demand at some other point. Large stocks in the hands of merchants and manufacturers have combined with the difficult money market to force many realizing sales. Collections are still good. In New England loans secured by stocks and bonds have decreased materially, about one-half of the decrease being in paper secured by corporate bonds and stocks. Borrowings from the Federal Reserve Banks show a decline. The total turnover as shown by charges against deposit accounts is about the same as during the preceding month. Investment securities show a fairly consistent level, though perhaps with a slightly downward tendency. The bill market in New York and other financial centers has been quite active with good demand for prime bills. Rates have changed but little in commercial paper, but have had a somewhat stronger tendency. Call money rates have been tolerably stable around 8 per cent. The reserve ratio of the Federal Reserve Banks has tended on the whole to reach a more satisfactory figure, the average for the four reports periods ending with July 23 being 43.6 per cent.

FEDERAL RESERVE BOARD

WASHINGTON

August 9,1920.

X-1991

Subject: Treasury Committee on Discontinuance of Sub-treasuries.

Dear Sir:-

There is enclosed herewith for your information copy of order of the Secretary of the Treasury appointing a Treasury committee on the discontinuance of the several sub-treasuries and the assumption of sub-treasury duties by the Treasurer of the United States, the mints and assay offices and the Federal Reserve Banks.

Very truly yours,

Enclosure.

Governor.

To Chairmen of all F.R. Banks.

TREASURY DEPARTMENT

Office of the Secretary

WASHINGTON

August 2, 1920.

Mr. W. S. Broughton
Commissioner of the Public Debt

Mr. R. G. Hand
Commissioner of Accounts and Deposits

Mr. G. F. Allen
Assistant Treasurer of the United States

Mr. H. P. Huddleson
Chief, Division of Public Moneys

Sirs:

You are hereby designated a committee to consider the situation arising through the discontinuance of the several subtreasuries and the assumption by the Treasurer of the United States, the mints and assay offices, and the Federal Reserve Banks of functions now performed by Assistant Treasurers of the United States and their offices, as directed by the Act of Congress approved May 29, 1920, entitled, "An act making appropriations for the legislative, executive and judicial expenses of the Government for the fiscal year ending June 30, 1921, and for other purposes." You will report to me your recommendations in connection therewith, and at the same time will suggest for my consideration rules and regulations to be promulgated for the conduct of the public business involved.

As each subtreasury and each Federal Reserve Bank or branch may present individual problems, I propose to designate from your committee a special Treasury representative to have direct contact with the Assistant Treasurers and the Federal Reserve Banks and to supervise in the field the transfers of the duties and functions of the subtreasuries.

Your committee will be expected, among other things, to consider and draft, for submission to the Secretary, rules and regulations governing the performance by the Federal Reserve Banks of the duties and functions now performed by the subtreasuries, including particularly exchanges of coin and currency, the custody of securities, deposits of court and post office funds, and the cashing of Government warrants and checks. In this connection, you are authorized to consult with the Assistant Treasurers and the representatives of the Federal Reserve Board and the Federal Reserve Banks.

Your attention is particularly invited to the personnel problems which will arise in connection with the discontinuance of the subtreasuries. I think that these problems should have attention, with a view to causing the least possible hardship to subtreasury employes whose services will be discontinued at subtreasury offices.

Respectfully,

D. F. HOUSTON

Secretary

FEDERAL RESERVE BOARD

WASHINGTON

August 10, 1920.

X-1992.

SUBJECT: Report of Currency Operations.

Dear Sir:

Pending action by the Federal Reserve Banks on the report of the Committee designated by the last conference of Governors with the Federal Reserve Board, held in Washington April 7th to 10th inclusive, to study the question of issue and redemption of new currency, the Federal Reserve Board requests each Federal Reserve Bank to render to the Board a monthly report on the enclosed blank form, (supply of which is being mailed to you today under separate cover), commencing August 28th. The first report should cover currency operations of the four week period ending at the close of business September 24th.

The Board desires a separate report covering the operations of each kind of paper currency, and a blank has been provided in the upper right hand corner of the report for the designation of the kind of currency which the report covers.

Very truly yours,

Governor.

Enclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD

WASHINGTON

August 11, 1920.
X-1993.

SUBJECT: Collection of Bill of Lading Drafts Received Direct from Non-member Bank for Credit of Proceeds to Account of Member Bank.

Dear Sir:

The Federal Reserve Board has received an inquiry from a Federal Reserve Bank whether country bank correspondents of a member bank may, with the authorization of the member bank, send bill of lading drafts direct to the Federal Reserve Bank for collection and credit to the member bank's account. The country bank correspondents referred to are not members of the Federal Reserve System and do not carry clearing accounts with any Federal Reserve Bank.

There is no provision of law authorizing a Federal Reserve Bank to receive items for deposit or collection from banks which are not members of the Federal Reserve System and which do not carry clearing accounts with the Federal Reserve Bank. Section 13 of the Federal Reserve Act, however, provides that a Federal Reserve Bank may receive on deposit from any of its member banks checks and drafts payable upon presentation and may receive for collection from any of its member banks maturing notes and bills. Under this provision it would be legal for a Federal Reserve Bank to receive direct from a bank, even though that bank is not a member and does not maintain a clearing account, checks and drafts or maturing notes and bills sent for the account of a member bank, provided, the Federal Reserve Bank has received satisfactory notice from the member bank that the member bank has authorized the sending bank to act as the agent of the member bank in forwarding the items for the member bank's account.

A somewhat similar arrangement has been approved whereby a member bank in one Federal Reserve District may send maturing notes and bills direct to a Federal Reserve Bank of another District for collection and credit to the account of the Federal Reserve Bank of the District in which the sending bank is located, although there is no provision of law which authorizes a Federal Reserve Bank to receive such items from a member bank located outside of its own District. For your information there is enclosed herewith a copy of the Board's circular letter X-1838 and an opinion of Counsel X-1838 (a) enclosed therewith, both relating to the collection of maturing notes and bills in this manner.

Notice from the member bank to the receiving Federal Reserve Bank that the member bank has authorized its correspondent to forward items direct to the Federal Reserve Bank for the account of the member bank should be specific, -- that is, it should name the particular correspondent or correspondents of the member bank which are so authorized. Bill of lading drafts drawn upon individuals, firms or corporations other than banks are not "checks and drafts" within the meaning of Section 13 of the Federal Reserve Act and should not, therefore, be received by a Federal Reserve Bank except for collection and credit when paid.

It should be understood, of course, that a Federal Reserve Bank may at its discretion decline to receive for collection bill of lading drafts forwarded to it by a member bank through the agency of the member bank's correspondents which are not themselves members and which do not maintain clearing accounts.

Very truly yours,

Governor.

Enclosures:

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS
COPY TO AGENTS.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

February 19,1920.
X-1838

Subject: Collection of Maturing Notes.

Dear Sir:-

I am forwarding herewith a copy of a memorandum prepared by Counsel on the right of a Federal Reserve Bank to collect maturing notes and bills drawn upon firms, individuals or corporations in its district other than member banks which are forwarded to it for collection by a member bank of another district for the account of the Federal Reserve Bank of that other district.

The Board at its meeting on February seventeenth approved this memorandum with the understanding, of course, that under the terms of Section 13, each Federal Reserve Bank may in its discretion decline to receive for collection maturing notes and bills which are forwarded to it by another Federal Reserve Bank through the agency of one of its member banks.

Very truly yours,

Governor.

To Chairmen of all F.R. Banks except Dallas

X-1838 a

Feb. 14, 1920.

Subject: Re: Collection of Maturing Notes.

TO The Federal Reserve Board

FROM Mr. Harrison.

In a ruling published on page 467 of the May 1919 Bulletin, it is explained that although a Federal Reserve Bank may properly collect maturing notes and bills drawn upon firms, individuals or corporations in its district other than member banks, which are forwarded to it for collection by another Federal Reserve Bank, nevertheless no Federal Reserve Bank may perform this service directly for any member bank located outside of its own District.

The attached correspondence with Governor Van Zandt presents for the consideration of the Board the question whether a Federal Reserve Bank may properly receive for collection maturing items forwarded direct to it from a member bank in another District, if they are forwarded for the account of the Federal Reserve Bank of that other District. Section 13 expressly authorizes a Federal Reserve Bank to receive maturing notes and bills payable within its District from any other Federal Reserve Bank. It seems, therefore, that if such items are forwarded to a Federal Reserve Bank by a member bank in another District for the account of its own Federal Reserve Bank they may properly be handled for collection just as if they had been forwarded directly by the Federal Reserve Bank of that other District. This service, however, should not be performed unless the collecting Federal Reserve Bank has received satisfactory notice from the other Federal Reserve Bank that it has authorized its member bank or member banks to act as its agent in forwarding maturing items of this character for collection and credit to its account. This agency may be specific as to a particular member bank or may be general as to all member banks of the District.

It is believed that the development of this practice may be found advisable if not necessary in the proper extension of the various collection facilities of the Federal Reserve Banks and will no doubt permit of a considerable saving of time and expense which would otherwise be incident to the indirect routing of maturing items through the Federal Reserve Banks of each district.

Respectfully,

(SIGNED) George L. Harrison,

General Counsel.

FEDERAL RESERVE BOARD

WASHINGTON

August 17,1920.
X-1994

Subject: Salary Adjustments and Classification of Employees.

Dear Sir:-

By direction of the Board, I append hereto copies of instructions to employees of the Board announcing the adoption by the Board of plan of salary adjustments therein explained.

As all Federal Reserve Banks are confronted with the problem of adjusting salaries, the Board felt that they would be interested in its method of treating the question. It will be noted that no attempt has been made to classify officers, but that sufficient classes are prescribed to embrace the entire remainder of the organization. In achieving this end, it was necessary in several instances to create classes covering individual employees.

In determining the salary range for each class of employees, the Board fixed the figures at approximately the replacement values of the employees. In each instance, the maximum salary in a class is 33-1/3% of the minimum greater than the minimum. Not desiring in any way to suggest what salaries should be paid to employees of Federal Reserve Banks, the Board instructed me to omit from the enclosed memorandum the figures showing the salary scale it adopted for its own employees. However, the figures are shown in the memorandum given employees, so that each employee knows exactly what opportunity exists in the field.

Successful operation of the plan demands that those serving on the sub-committee on staff be acquainted intimately with the work of employees whose ratings they present for the committee's consideration.

It has been suggested that should Federal Reserve Banks desire to adopt a similar plan, the Board could approve the salary ranges recommended, and leave it to the Banks to make adjustments within the ranges without reference to the Board. The Board believes it would not only be possible but highly desirable to have standard classifications adopted by the Reserve Banks, recognizing, of course, that salary ranges for such classifications need not be uniform throughout the system. Of course, should a Federal Reserve Bank adopt the plan, the Board would expect the Bank to restrict its application to employees below the rank of Assistant Cashier and whose salaries are $3,000 per annum or under, and to continue to submit to the Board for specific approval, increases in salaries above the classification ranges, as well as salaries of all new officers and employees who are to receive pay of $2,400 or more per annum. In the event of the adoption of the plan by any Federal Reserve Bank, the Board would, of course, desire that the Bank continue to submit for the records of the Board as heretofore, a statement showing its complete organization and salaries paid as of January 1st and July 1st of each year.

It is believed that the present is an opportune moment to adjust salaries on a permanent basis, looking to the abandonment of the present bonus payments.

Very truly yours,

Enclosure.

Secretary.

TO CHAIRMEN OF ALL F.R. BANKS.

X-1994 a

FEDERAL RESERVE BOARD
WASHINGTON

TO THE EMPLOYEES OF THE FEDERAL RESERVE BOARD: July 1,1920.

The Federal Reserve Board has approved, effective July 1, 1920, a plan of classifying its employees into grades with salary range, as follows:

	Salary Minimum	Salary Maximum
SUPERVISORY:		
Chief Clerk.		
Supply Agent		
Senior Statistical Accountant		
Chief, Gold Settlement Division		
Section Supervisor		
Assistant Chief Clerk		
Federal Reserve Note Clerk		
Printing and Record Clerk		
Chief Clerk, Division of Reports and Statistics		
Chief File Clerk		
Librarian		
General Assistant		
Statistical and Accounting Clerk		
CLERICAL:		
Office Assistant		
Stenographic Clerk		
Technical Clerk		
Stenographer		
Clerk-Typist		
Comptometer Operator		
Typist		
Clerk		
Card Puncher		
SUB-CLERICAL:		
Machine Operator		
Chief Messenger		
Assistant Chief Messenger		
Messenger		
Messenger (probationary period 2 mos.)		
Junior Messenger		

As the basis for rating each employee, the Board has approved the following:

Qualification	Weight	Per Cent Attained	Actual Weight
1. Ability	50		
2. Application	20		
3. Adaptability	18		
4. Attendance	8		
5. Appearance	4		
TOTAL	100		

On this basis, the percentage attained by employees shall determine the compensation to be received in the respective grades, as follows:

Rating

70-80 . . . . . .Minimum
81-85 . . . . . .1st increase of 1/9
86-90 . . . . . .2nd "
91-100 . . . . .3rd "

For the purpose of administering this plan, the Board has appointed the following sub-committee on staff:

Secretary
Assistant Secretary
Statistician
Chief, Division of Examination
Chief, Division of Reports and Statistics
General Counsel.

It is the duty of each division chief to rate each of his employees on the first of March, June, September and December. Employees are therefore assured of a quarterly rating, and of close attention to their individual efforts for advancement.

Division chiefs may also rate particular employees on dates other than those specified.

Recommendations of ratings by division chiefs are submitted to the sub-committee on staff, meetings of which are held monthly, or at special times when called by the Secretary. Recommendations growing out of such meetings are submitted to the Executive Committee of the Board for consideration at the next regular meeting of the Board.

After approval by the Board of ratings recommended by the sub-committee, each employee shall be given in a sealed envelope a notice of rating and relative standing in his or her grade.

In considering the qualifications of employees, the following elements are given weight, but these do not preclude the consideration of other elements which, in particular cases, may be deemed of greater importance.

1. Ability - Accuracy, care, dexterity, education, experience, energy, initiative, intelligence, reliability, speed.

2. Application - Devotion to duties.

3. Adaptability - Ambition, cooperation, courtesy, tact, loyalty, observation, interest in general work other than in own particular job, habits.

4. Attendance - Regularity, punctuality, reliability.

5. Appearance - Neatness, alertness.

Any employee feeling full justification therefor, shall have the right to file with the sub-committee in writing, a request for review of his or her rating. Such request shall recite in detail the employee's reasons for believing the rating to be unfair.

(Signed) W.T. CHAPMAN.

Secretary.

FEDERAL RESERVE BOARD

WASHINGTON

August 21,1920

X-1995

Subject: Regulations, Series of 1920.

Dear Sir:-

The Federal Reserve Board transmits herewith a copy of the preliminary draft of its new Regulations, Series of 1920. This draft is being submitted to all Federal Reserve Banks and to members of the Federal Advisory Council for such suggestions as they may care to make.

The Regulations in the new series will amend and supersede the corresponding Regulations now in effect, all of which were issued in 1917 with the exceptions of Regulation F relating to "Trust Powers of National Banks" which was issued in 1919 and Regulation K, relating to "Banking Corporations authorized to do Foreign Banking Business under the terms of Section 25 (a) of the Federal Reserve Act", which was issued in March of the present year.

Regulations A, B, and I of the new series have been materially amended. For the convenience of those interested in studying the amendments to these particular Regulations mimeographed copies are enclosed showing the new matter in capital type.

The only changes in Regulation C, relating to "Acceptances by Member Banks of Drafts and Bills of Exchange", are the substitution of the word "remains" for the word "is" in the twelfth line of the first paragraph and the insertion after the sentence ending with the word "acceptance" of a sentence reading as follows:

> A trust receipt which permits the customer to have access to or control over the goods will not be considered by Federal Reserve Banks to be "actual security" within the meaning of these regulations. A bill of lading draft, however, is "actual security" even after the documents have been released, provided, that the draft is accepted by the drawee upon or before the surrender of the documents.

The only change in Regulation D, relating to "Time Deposits and Savings Accounts", is the insertion of the words "which must be" after the word "notice" and before the word "given" in the next to the last line of the second paragraph relating to "Time Deposits, Open Accounts", and the insertion of the words "which the bank may at its option require to be" between the word "notice" and the word "given" in subdivision (c) of the last paragraph relating to "Time Certificates of Deposit".

Regulation H, relating to "Membership of State Banks and Trust Companies" has not been changed except by adding to the last sentence the words "and shall be made on Form 105, which is made a part of this regulation."

Regulation J, relating to "Check Clearing and Collection" has not been changed except by the elimination of the last paragraph, numbered 10. The Board does not think it advisable to consider at the present time other changes in this Regulation, although it is realized that the Regulation in its present form does not fully indicate the clearing and collection functions now performed by Federal Reserve Banks. The Board believes that a more appropriate time to make further changes in this Regulation will be after the litigation pending in the Atlanta District has been terminated and after Congress has indicated what action it will take along the line of the Board's suggestion, contained in its letter of May 5, 1920, addressed to the Chairman of the Banking and Currency Committee of the House of Representatives, that Congress, by means of additional legislation, define its attitude toward the Federal Reserve par collection.

Regulation K is identically the same as Regulation K, Series of 1920, referred to above as having been issued in March of the present year, except that the word "correspondents" has been inserted at the beginning of the fourth line of Topic XIV relating to "Deposits".

Regulations E and F are identically the same as the corresponding Regulations issued in 1917 and 1919 respectively.

The Federal Reserve Board regards the issuance of the new series of Regulations as a matter of great importance to Federal Reserve Banks, member banks and the public generally. The Board will be glad to consider suggestions and invites those interested to give the matter careful study with a view to giving the Board the benefit of their views as promptly as possible. For the convenience of the Board in considering the suggestions made, it is requested that the letters addressed to the Board upon this subject be sent in duplicate.

Yours very truly,

Enclosure.

Governor.

To Governors of Federal Reserve Banks, Federal Reserve Agents, Members of Federal Advisory Council.

REGULATION A
Series of 1920
(Superseding Regulation A of 1917).

DRAFT SHOWING NEW MATTER
IN CAPITALS.

REDISCOUNTS UNDER SECTION 13. X-1995

A.

NOTES, DRAFTS, AND BILLS OF EXCHANGE.

1. General Statutory Provisions.

Any Federal Reserve Bank may discount for any of its member banks any note, draft, or bill of exchange provided -

(a) It has a maturity at the time of discount of not more than 90 days, exclusive of days of grace; but if drawn or issued for agricultural purposes or based on live stock, it may have a maturity at the time of discount of not more than six months, exclusive of days of grace.

(b) It arose out of actual commercial transactions; that is, it must be a note, draft, or bill of exchange which has been issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes.

(c) It was not issued for carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

(d) The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm or corporation rediscounted for any one member bank WHETHER STATE OR NATIONAL shall at no time exceed 10 per cent (SEE NOTE A) of the unimpaired capital and surplus of such bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

(e) It is endorsed by a member bank.

(f) It conforms to all applicable provisions of this regulation.

NO FEDERAL RESERVE BANK MAY DISCOUNT FOR ANY MEMBER STATE BANK OR TRUST COMPANY ANY OF THE NOTES, DRAFTS, OR BILLS OF ANY ONE BORROWER WHO IS LIABLE FOR BORROWED MONEY TO SUCH STATE BANK OR TRUST COMPANY IN AN AMOUNT GREATER THAN 10 PER CENT. *(SEE NOTE B.) OF THE CAPITAL AND SURPLUS OF THAT STATE BANK OR TRUST COMPANY, BUT IN DETERMINING THE AMOUNT OF MONEY BORROWED FROM SUCH STATE BANK OR TRUST COMPANY THE DISCOUNT OF BILLS OF EXCHANGE DRAWN IN GOOD FAITH AGAINST ACTUALLY EXISTING VALUES SHALL NOT BE INCLUDED.

ANY FEDERAL RESERVE BANK MAY MAKE ADVANCES TO ITS MEMBER BANKS ON THEIR PROMISSORY NOTES FOR A PERIOD NOT EXCEEDING 15 DAYS, PROVIDED THAT THEY ARE SECURED BY NOTES, DRAFTS, BILLS OF EXCHANGE, OR BANKERS ACCEPTANCES WHICH ARE ELIGIBLE FOR REDISCOUNT OR FOR PURCHASE BY FEDERAL RESERVE BANKS, OR BY THE DEPOSIT OR PLEDGE OF BONDS OR NOTES OF THE UNITED STATES, OR BONDS OF THE WAR FINANCE CORPORATION.

*Note A. UNDER THE TERMS OF SECTION 11 (m) AS AMENDED BY THE ACT OF MARCH 3, 1919, A FEDERAL RESERVE BANK MAY, UNTIL DECEMBER 31, 1920, REDISCOUNT FOR ANY MEMBER BANK, WHETHER STATE OR NATIONAL, NOTES, DRAFTS, AND BILLS BEARING THE SIGNATURE OR INDORSEMENT OF ANY ONE BORROWER IN AN AMOUNT NOT TO EXCEED 20 PER CENT, OF THE MEMBER BANK'S CAPITAL AND SURPLUS, PROVIDED THAT THE EXCESS OVER AND ABOVE 10 PER CENT, BE SECURED BY BONDS OR NOTES OF THE UNITED STATES ISSUED SINCE APRIL 24, 1917, OR BY CERTIFICATES OF INDEBTEDNESS OF THE UNITED STATES.

*Note B. UNDER THE TERMS OF SECTION 11 (m) AS AMENDED BY THE ACT OF MARCH 3, 1919, A FEDERAL RESERVE BANK MAY UNTIL DECEMBER 31, 1920, REDISCOUNT FOR A MEMBER STATE BANK OR TRUST COMPANY PAPER OF ANY ONE BORROWER SECURED BY NOT LESS THAN A LIKE FACE AMOUNT OF BONDS OR NOTES OF THE UNITED STATES ISSUED SINCE APRIL 24, 1917, OR CERTIFICATES OF INDEBTEDNESS OF THE UNITED STATES, EVEN THOUGH SUCH STATE BANK OR TRUST COMPANY MAY ALREADY HAVE LOANED TO THE BORROWER UNDER HIS REGULAR LINE OF CREDIT IN EXCESS OF THE TEN PER CENT LIMIT DEFINED ABOVE. IF, HOWEVER, THE MEMBER STATE BANK OR TRUST COMPANY HAS LOANED TO ONE BORROWER IN EXCESS OF THAT TEN PER CENT LIMIT UNDER HIS REGULAR LINE OF CREDIT THE FEDERAL RESERVE BANK CANNOT REDISCOUNT FOR THAT STATE BANK OR TRUST COMPANY ANY OF THE PAPER OF THAT BORROWER TAKEN UNDER THAT REGULAR LINE OF CREDIT BUT MAY REDISCOUNT ANY PAPER SECURED BY GOVERNMENT OBLIGATIONS OF THE KINDS SPECIFIED UP TO AN AMOUNT NOT IN EXCESS OF TWENTY PER CENT OF THE CAPITAL AND SURPLUS OF SUCH STATE BANK OR TRUST COMPANY.

11. General Character of Notes, Drafts, and Bills of Exchange Eligible.

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for rediscount at a Federal Reserve Bank has determined that -

(a) It must be a note, draft, or bill of exchange the proceeds of which have been used or are to be used IN THE FIRST INSTANCE in producing, purchasing, carrying, or marketing goods ** in one or more of the steps of the process of production, manufacture, or distribution. (Note.)

(b) It must not be a note, draft, or bill of exchange the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery.

(c) It must not be a note, draft or bill of exchange the proceeds of which have been used or are to be used for investments of a purely speculative character OR FOR THE PURPOSE OF LENDING TO SOME OTHER BORROWER.

(d) It may be secured by the pledge of goods or collateral WHICH IS INELIGIBLE FOR REDISCOUNT, provided it, THE NOTE, DRAFT, OR BILL OF EXCHANGE, is otherwise eligible.

III. Application for Rediscount.

All applications for the rediscount of notes, drafts or bills of exchange must contain a certificate of the member bank, in form to be prescribed by the Federal Reserve Bank, that, to the best of its knowledge and belief, such notes, drafts, or bills of exchange have been issued for one or more of the purposes mentioned in 11 (a), AND, IN THE CASE OF A MEMBER STATE BANK OR TRUST COMPANY, ALL APPLICATIONS MUST CONTAIN A CERTIFICATE OF GUARANTY TO THE EFFECT THAT THE BORROWER IS NOT LIABLE, AND WILL NOT BE PERMITTED TO BECOME LIABLE DURING THE TIME HIS PAPER IS HELD BY THE FEDERAL RESERVE BANK, TO SUCH BANK OR TRUST COMPANY FOR BORROWED MONEY IN AN AMOUNT GREATER THAN THAT SPECIFIED IN 1 ABOVE.

** Note. When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

IV. Promissory Notes

(a) Definition. A promissory note, within the meaning of this regulation is defined as an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

(b) Evidence of eligibility and requirement of statements. A Federal Reserve Bank must be satisfied by reference to the note or otherwise that it is eligible for rediscount. Compliance of a note with II(b) may be evidenced by a statement of the borrower showing a reasonable excess of quick assets over current liabilities, BUT FAILURE TO SHOW SUCH AN EXCESS DOES NOT OF ITSELF NECESSARILY PRECLUDE ELIGIBILITY. The member bank shall certify in its application whether the note offered for rediscount has been discounted for a depositor or another member bank or whether it has been purchased from a nondepositor. It must also certify whether a financial statement of the borrower is on file.

Such financial statements must be on file with respect to all notes offered for rediscount which have been purchased from sources other than a depositor or a member bank. With respect to any other note offered for rediscount, if no statement is on file, a Federal Reserve Bank shall use its discretion in taking the steps necessary to satisfy itself as to eligibility. It is authorized to waive the requirement of a statement with respect to any note discounted by a member bank for a depositor or another member bank -

(1) If it is secured by a warehouse, terminal, or other similar receipt covering goods in storage;

(2) If the aggregate of obligations of the borrower rediscounted and offered for rediscount at the Federal Reserve Bank is less than a sum equal to 10 per cent. of the paid-in capital of the member bank and does not exceed $5,000.

V. Drafts, Bills of Exchange and Trade Acceptances.

(a) Definition - A draft or bill of exchange, within the meaning of this regulation is defined as an unconditional order in writing, addressed by one person to another, other than a banker as defined under B (b), signed by the person giving it, requiring the person to whom it is addressed, to pay in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person; and a trade acceptance is defined as a draft or bill of exchange drawn by the seller on the purchaser of goods sold* and accepted by such purchaser.

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*Note: A CONSIGNMENT OF GOODS OR A CONDITIONAL SALE OF GOODS CANNOT BE CONSIDERED "GOODS SOLD" WITHIN THE MEANING OF THIS CLAUSE, BUT THE PURCHASE PRICE OF GOODS PLUS THE COST OF LABOR IN EFFECTING THEIR INSTALLATION MAY BE INCLUDED IN THE AMOUNT FOR WHICH THE TRADE ACCEPTANCE IS DRAWN.

(b) Evidence of eligibility. - A Federal Reserve Bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the draft or bill offered for rediscount, unless it presents prima facie evidence thereof or bears a stamp or certificate affixed by the acceptor or drawer showing that it is a trade acceptance.

VI. Six Months' Agricultural Paper.

(a) Definition. - Six months' agricultural paper, within the meaning of this regulation, is defined as a note, draft, bill of exchange, or trade acceptance drawn or issued for agricultural purposes, or based on live stock; that is, a note draft, bill of exchange, or trade acceptance the proceeds of which have been used, or are to be used for agricultural purposes, including the breeding, raising, fattening, or marketing of live stock, and which has a maturity at the time of discount of not more than six months, exclusive of days of grace.

(b) Eligibility. - To be eligible for rediscount six months' agricultural paper, whether a note, draft, bill of exchange or trade acceptance, must comply with the respective sections of this regulation which would apply to it if maturity were 90 days or less.

BANKERS' ACCEPTANCES.

(A) DEFINITION. - A BANKER'S ACCEPTANCE WITHIN THE MEANING OF THIS REGULATION IS DEFINED AS A DRAFT OR BILL OF EXCHANGE OF WHICH THE ACCEPTOR IS A BANK OR TRUST COMPANY, OR A FIRM, PERSON, COMPANY OR CORPORATION ENGAGED GENERALLY IN THE BUSINESS OF GRANTING BANKERS' ACCEPTANCE CREDITS.

(B) ELIGIBILITY. - TO BE ELIGIBLE FOR REDISCOUNT, THE BILL WHICH MUST HAVE A MATURITY AT TIME OF PURCHASE OF NOT MORE THAN THREE MONTHS, EXCLUSIVE OF DAYS OF GRACE, MUST HAVE BEEN DRAWN UNDER A CREDIT OPENED FOR THE PURPOSE OF CONDUCTING OR SETTLING ACCOUNTS RESULTING FROM A TRANSACTION OR TRANSACTIONS INVOLVING ANY ONE OF THE FOLLOWING CASES:

(1) THE SHIPMENT OF GOODS BETWEEN THE UNITED STATES AND ANY FOREIGN COUNTRY, OR BETWEEN THE UNITED STATES AND ANY OF ITS DEPENDENCIES OR INSULAR POSSESSIONS, OR BETWEEN FOREIGN COUNTRIES. WHILE IT IS NOT NECESSARY THAT SHIPPING DOCUMENTS COVERING GOODS IN THE PROCESS OF SHIPMENT BE ATTACHED TO DRAFTS DRAWN FOR THE PURPOSE OF FINANCING THE EXPORTATION OR IMPORTATION OF GOODS, AND WHILE IT MAY NOT BE ESSENTIAL, THEREFORE, THAT EACH SUCH DRAFT COVER SPECIFIC GOODS ACTUALLY IN EXISTENCE AT THE TIME OF ACCEPTANCE, NEVERTHELESS IT IS ESSENTIAL AS A PREREQUISITE TO ELIGIBILITY EITHER THAT A BILL OF LADING OR DOCUMENTARY DRAFT DRAWN UPON THE BUYER OF GOODS BE ATTACHED AT THE TIME THE BANK DRAFT IS PRESENTED FOR ACCEPTANCE, OR, IN THE EVENT THAT THE GOODS COVERED BY THE CREDIT HAVE NOT BEEN ACTUALLY SHIPPED, THAT THERE BE IN EXISTENCE A SPECIFIC AND BONA FIDE CONTRACT BETWEEN THE CUSTOMER AND SOME INDEPENDENT THIRD PARTY, PROVIDING FOR THE EXPORTATION OR IMPORTATION AT OR WITHIN A SPECIFIED TIME OF THE GOODS TO BE FINANCED BY THE CREDIT. IT IS NOT ENOUGH THAT THE CUSTOMER AGREE WITH THE BANK THAT THE PROCEEDS OF THE ACCEPTANCE WILL BE USED ONLY TO FINANCE THE PURCHASE OR SHIPMENT OF GOODS TO BE EXPORTED OR IMPORTED AND FOR NO OTHER PURPOSE.

(2) THE SHIPMENT OF GOODS WITHIN THE UNITED STATES, PROVIDED SHIPPING DOCUMENTS CONVEYING OR SECURING TITLE ARE ATTACHED AT THE TIME OF ACCEPTANCE, OR

(3) THE STORAGE OF READILY MARKETABLE STAPLES, PROVIDED THAT THE BILL IS SECURED AT THE TIME OF ACCEPTANCE BY A WAREHOUSE, TERMINAL, OR OTHER SIMILAR RECEIPT, AND PROVIDED FURTHER THAT THE BILL REMAINS SECURED THROUGHOUT ITS LIFE. IN THE EVENT THAT THE GOODS MUST BE WITHDRAWN FROM STORAGE PRIOR TO THE MATURITY OF THE ACCEPTANCE FOR DISPOSAL IN SOME MANNER CONTEMPLATING A LIQUIDATION OF THE CREDIT, A TRUST RECEIPT OR OTHER SUCH DOCUMENT COVERING THE GOODS AND GIVING THE BANK AN EQUITY IN THE GOODS OR THEIR PROCEEDS MAY BE SUBSTITUTED IN LIEU OF THE ORIGINAL SECURITY, PROVIDED THAT SUCH SUBSTITUTION IS CONDITIONED UPON A REASONABLY IMMEDIATE LIQUIDATION OF THE CREDIT. IN ORDER TO INSURE COMPLIANCE WITH THIS CONDITION FEDERAL RESERVE BANKS MAY REQUIRE, WHEN THE ORIGINAL DOCUMENT IS RELEASED, EITHER (A) THAT THE PROCEEDS OF THE GOODS WILL BE APPLIED WITHIN A SPECIFIED TIME TOWARDS A LIQUIDATION OF THE ACCEPTANCE CREDIT OR (B) THAT A NEW DOCUMENT, SIMILAR TO THE ORIGINAL ONE, WILL BE RESUBSTITUTED WITHIN A SPECIFIED TIME.

ANY BILL DRAWN BY A BANK OR BANKER IN A FOREIGN COUNTRY OR DEPENDENCY OR INSULAR POSSESSION OF THE UNITED STATES FOR THE PURPOSE OF FURNISHING DOLLAR EXCHANGE, AS PROVIDED IN REGULATION C IS ELIGIBLE FOR REDISCOUNT PROVIDED THAT IT HAS A MATURITY AT THE TIME OF REDISCOUNT OF NOT MORE THAN THREE MONTHS, EXCLUSIVE OF DAYS OF GRACE.

IN ORDER TO BE ELIGIBLE, ACCEPTANCES FOR ANY ONE CUSTOMER IN EXCESS OF 10 PER CENT OF THE CAPITAL AND SURPLUS OF THE ACCEPTING BANK MUST REMAIN SECURED THROUGHOUT THE LIFE OF THE ACCEPTANCE EITHER BY SHIPPING DOCUMENTS, WAREHOUSE RECEIPTS, OR OTHER SUCH DOCUMENTS COVERING READILY MARKETABLE STAPLES, OR BY SOME OTHER ACTUAL SECURITY GROWING OUT OF THE SAME TRANSACTION AS THE ACCEPTANCE, SUCH AS DOCUMENTARY DRAFTS, TRADE ACCEPTANCES, TERMINAL RECEIPTS, OR TRUST RECEIPTS WHICH DO NOT PERMIT THE BORROWER TO HAVE ACCESS TO OR CONTROL OVER THE GOODS.

MATURITY.- ALTHOUGH A FEDERAL RESERVE BANK MAY LEGALLY REDISCOUNT (OR PURCHASE) AN ACCEPTANCE HAVING A MATURITY OF NOT MORE THAN 90 DAYS AT THE TIME OF DISCOUNT, EACH FEDERAL RESERVE BANK MAY DECLINE TO REDISCOUNT (OR PURCHASE) ANY ACCEPTANCE THE MATURITY OF WHICH IS IN EXCESS OF THE USUAL OR CUSTOMARY PERIOD OF CREDIT REQUIRED TO COMPLETE THE UNDERLYING TRANSACTION OR WHICH IS IN EXCESS OF THAT PERIOD REASONABLY NECESSARY TO FINANCE THE TRANSACTION. SINCE THE PURPOSE OF PERMITTING THE ACCEPTANCE OF DRAFTS SECURED BY WAREHOUSE RECEIPTS OR OTHER SUCH DOCUMENTS IS TO PERMIT OF THE TEMPORARY HOLDING OF READILY MARKETABLE STAPLES IN STORAGE PENDING A REASONABLY IMMEDIATE SALE, SHIPMENT, OR DISTRIBUTION, NO SUCH ACCEPTANCE SHOULD HAVE A MATURITY IN EXCESS OF THE TIME NECESSARY TO EFFECT A REASONABLY IMMEDIATE SALE, SHIPMENT OR DISTRIBUTION INTO THE PROCESS OF MANUFACTURE OR CONSUMPTION.

ACCEPTANCE CREDITS. - WHILE A NATIONAL BANK MAY PROPERLY ENTER INTO AN AGREEMENT HAVING MORE THAN SIX MONTHS TO RUN BY WHICH IT OBLIGATES ITSELF TO ACCEPT DRAFTS DRAWN UPON IT, EACH INDIVIDUAL DRAFT ACCEPTED UNDER THE TERMS OF THAT AGREEMENT MUST CONFORM IN ALL RESPECTS TO THE PROVISIONS OF THE LAW AND THESE REGULATIONS. NO SUCH ACCEPTANCE AGREEMENT, HOWEVER, SHOULD BE OF SUCH A CHARACTER AS TO IMPOSE UPON THE HOLDER OF DRAFTS ACCEPTED UNDER THAT AGREEMENT, ANY OBLIGATION INCONSISTENT WITH ITS PAYMENT IN DOLLARS UPON THE SPECIFIED MATURITY. INASMUCH AS EACH INDIVIDUAL ACCEPTANCE MUST ITSELF CONFORM TO THE TERMS OF THE LAW, NO RENEWAL DRAFT, WHETHER OR NOT CONTRACTED FOR IN ADVANCE, CAN BE ELIGIBLE IF AT THE TIME OF ITS ACCEPTANCE THE PERIOD REQUIRED FOR THE CONCLUSION OF THE TRANSACTION OUT OF WHICH THE ORIGINAL DRAFT WAS DRAWN SHALL HAVE ELAPSED. THE FEDERAL RESERVE BOARD MAY BE ABLE TO RULE IN ADVANCE AS TO THE ELIGIBILITY OF RENEWAL DRAFTS IN CASES WHERE IT IS PRACTICABLE AT THE TIME THE ORIGINAL DRAFT IS DRAWN TO FORETELL WITH SUBSTANTIAL CERTAINTY THE CONDITIONS WHICH WILL EXIST AT THE TIME THE RENEWAL DRAFT IS TO BE DRAWN BUT IN CASES WHERE THAT IS NOT POSSIBLE THE QUESTION OF THE ELIGIBILITY OF RENEWAL DRAFTS MUST NECESSARILY DEPEND UPON THE STAGE OF THE TRANSACTION AT THE TIME THE RENEWAL DRAFTS ARE DRAWN.

(C) EVIDENCE OF ELIGIBILITY. A FEDERAL RESERVE BANK MUST BE SATISFIED, EITHER BY REFERENCE TO THE ACCEPTANCE ITSELF, OR OTHERWISE, THAT IT IS ELIGIBLE FOR REDISCOUNT. THE BILL ITSELF SHOULD BE DRAWN SO AS TO EVIDENCE THE CHARACTER OF THE UNDERLYING TRANSACTION, BUT IF IT IS NOT SO DRAWN SATISFACTORY EVIDENCE MAY CONSIST OF A STAMP OR CERTIFICATE AFFIXED BY THE ACCEPTOR IN FORM SATISFACTORY TO THE FEDERAL RESERVE BANK.

X-1955

OPEN-MARKET PURCHASES OF BILLS OF EXCHANGE, TRADE ACCEPTANCES, AND BANKERS ACCEPTANCES UNDER SECTION 14.

Regulation B.
Series of 1920.
(Superseding Regulation B of 1917)

DRAFT SHOWING NEW
MATTER IN CAPITALS.

I. General Statutory Provisions.

Section 14 of the Federal Reserve Act permits Federal Reserve Banks under rules and regulations to be prescribed by the Federal Reserve Board to purchase and sell in the open market from banks, firms, corporations, or individuals, bankers' acceptances and bills of exchange of the kinds and maturities made eligible by the Act for rediscount, with or without the indorsement of a member bank.

II. General Character of Bills and Acceptances Eligible.

The Federal Reserve Board, exercising its statutory right to regulate the purchase of bills of exchange and acceptances, has determined that a bill of exchange or acceptance, to be eligible for purchase by Federal Reserve Banks under section 14 -

(a) MUST CONFORM TO THE RELATIVE REQUIREMENTS OF REGULATION A.

(b) MUST HAVE A MATURITY AT THE TIME OF PURCHASE OF NOT MORE THAN NINETY DAYS, EXCLUSIVE OF DAYS OF GRACE, BUT NEED NOT, AT THE DISCRETION OF THE FEDERAL RESERVE BANK, BE INDORSED BY A MEMBER BANK.

(c) Must have been accepted by the drawee prior to purchase by a Federal Reserve Bank unless it is EITHER accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt conveying security title OR BEARS A SATISFACTORY BANKING INDORSEMENT.

(d) A BILL OF EXCHANGE, UNLESS INDORSED BY A MEMBER BANK, IS NOT ELIGIBLE FOR PURCHASE UNTIL A SATISFACTORY STATEMENT HAS BEEN FURNISHED OF THE FINANCIAL CONDITION OF ONE OR MORE OF THE PARTIES THERETO.

A BANKERS' ACCEPTANCE, UNLESS ACCEPTED OR INDORSED BY A MEMBER BANK, IS NOT ELIGIBLE FOR PURCHASE UNTIL THE ACCEPTOR HAS FURNISHED A SATISFACTORY STATEMENT OF ITS FINANCIAL CONDITION IN FORM TO BE APPROVED BY THE FEDERAL RESERVE BANK AND HAS AGREED IN WRITING WITH A FEDERAL RESERVE BANK TO INFORM IT UPON REQUEST CONCERNING THE TRANSACTION UNDERLYING THE ACCEPTANCE.

DRAFT SHOWING NEW
MATTER IN CAPITALS.

X-1995

Regulation I.
Series of 1920.
(Superseding Regulation I of 1917)

INCREASE OR DECREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS AND CANCELLATION OF OLD AND ISSUE OF NEW STOCK CERTIFICATES.

Increase of Capital Stock.

Whenever the capital stock of any Federal Reserve Bank shall be increased by new banks becoming members, or by the increase of PAID-UP capital or surplus of any member bank and the allotment of additional capital stock to such bank, OR BY THE CONSOLIDATION OF A MEMBER BANK WITH ANY OTHER BANK OR BANKS, MEMBER OR NONMEMBER, UNDER THE CHARTER OF ONE OF THE CONSOLIDATING MEMBER BANKS, THE CAPITAL AND SURPLUS OF THE CONSOLIDATED BANK BEING IN EXCESS OF THE AGGREGATE CAPITAL AND SURPLUS OF THE CONSOLIDATING MEMBER BANKS, AND THE ALLOTMENT OF ADDITIONAL STOCK TO SUCH CONSOLIDATED BANKS, the board of directors of such Federal Reserve Bank shall certify such increase to the Comptroller of the Currency on Form 58, which is made a part of this regulation. SUCH CERTIFICATIONS SHALL BE MADE QUARTERLY AS OF THE FIRST DAYS OF JANUARY, APRIL, JULY AND OCTOBER OF EACH YEAR.

Decrease of Capital Stock.

I. Whenever a member bank reduces its PAID-UP capital stock or surplus, and, in the case of reduction of THE PAID-UP capital OF A NATIONAL BANK, such reduction has been approved by the Comptroller of the Currency and by the Federal Reserve Board in accordance with the provisions of Section 28 of the Federal Reserve Act, it shall file with the Federal Reserve Bank of which it is a member an application FOR THE SURRENDER AND CANCELLATION OF STOCK on Form 60, which is made a part of this regulation. When this application has been approved BY THE FEDERAL RESERVE AGENT AND THE FEDERAL RESERVE BOARD the Federal Reserve Bank shall ACCEPT and cancel the STOCK WHICH THE APPLYING BANK IS ENTITLED TO SURRENDER AND SHALL refund to the member bank the proportionate amount due such bank on account of the STOCK cancelled.

II. Whenever a member bank shall be declared insolvent and a receiver appointed by the proper authorities, such receiver shall file with the Federal Reserve Bank of which the insolvent bank is a member an application on Form 87, which is made a part of this regulation, for the surrender and cancellation of the stock held by, and for the refund of all balances due to such insolvent member bank. Upon approval of this application by the Federal Reserve Agent AND THE FEDERAL RESERVE BOARD, the Federal Reserve Bank shall accept and cancel the stock surrendered, and shall adjust accounts between the member bank and the Federal Reserve Bank by applying to the indebtedness of the insolvent member bank to such Federal Reserve Bank all cash-paid subscriptions made by it on the stock canceled with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized receiver of such insolvent member bank.

III. Whenever a member bank goes into voluntary liquidation and a liquidating agent is appointed, such agent shall file with the Federal Reserve Bank of which it is a member an application on Form 86, which is made a part of this regulation, for the surrender and cancellation of the stock held by and for the refund of all balances due to such liquidating member bank. Upon approval of this application by the Federal Reserve Agent AND THE FEDERAL RESERVE BOARD, the Federal Reserve Bank shall accept and cancel the stock surrendered, and shall adjust accounts between the liquidating member bank and the Federal Reserve Bank by applying to the indebtedness of the liquidating member bank to such Federal Reserve Bank all cash-paid subscriptions made by it on the stock canceled with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, and the balance, if any, shall be paid to the duly authorized liquidating agent of such liquidating member bank.

IV. WHENEVER MEMBER BANKS CONSOLIDATE UNDER THE CHARTER OF ONE OF SUCH BANKS, (1) THE PAID-UP CAPITAL AND SURPLUS OF THE CONSOLIDATED BANK BEING LESS THAN THE AGGREGATE PAID-UP CAPITAL AND SURPLUS OF THE CONSOLIDATING BANKS, THE CONSOLIDATED BANK SHALL FILE WITH THE FEDERAL RESERVE BANK OF WHICH IT IS A MEMBER, AN APPLICATION FOR THE SURRENDER AND CANCELLATION OF STOCK (SEE FORM ______, WHICH IS MADE A PART OF THIS REGULATION). UPON THE APPROVAL OF THIS APPLICATION BY THE FEDERAL RESERVE AGENT AND THE FEDERAL RESERVE BOARD, THE FEDERAL RESERVE BANK SHALL ACCEPT AND CANCEL THE STOCK WHICH THE APPLYING BANK IS ENTITLED TO SURRENDER, AND SHALL REFUND TO THE APPLYING BANK THE PROPORTIONATE AMOUNT DUE SUCH BANK ON ACCOUNT OF THE STOCK CANCELLED.

V. ALL REDUCTIONS OF THE CAPITAL STOCK OF A FEDERAL RESERVE BANK SHALL, IN ACCORDANCE WITH THE PROVISIONS OF SECTION 6 OF THE FEDERAL RESERVE ACT, BE CERTIFIED TO THE COMPTROLLER OF THE CURRENCY BY THE BOARD OF DIRECTORS OF SUCH FEDERAL RESERVE BANK ON FORM 59, WHICH IS MADE A PART OF THIS REGULATION. SUCH CERTIFICATIONS SHALL BE MADE QUARTERLY AS OF THE FIRST DAYS OF JANUARY, APRIL, JULY AND OCTOBER OF EACH YEAR.

CANCELLATION OF OLD AND ISSUE OF NEW STOCK CERTIFICATES

WHENEVER A MEMBER BANK CHANGES ITS NAME OR, BY CONSOLIDATION WITH ANOTHER MEMBER (1) BANK ACQUIRES THE FEDERAL RESERVE BANK STOCK PREVIOUSLY HELD BY SUCH OTHER MEMBER BANK, IT SHALL SURRENDER TO THE FEDERAL RESERVE BANK THE CERTIFICATE OF FEDERAL RESERVE BANK STOCK WHICH WAS ISSUED TO IT UNDER ITS OLD NAME, OR WHICH WAS ISSUED TO SUCH OTHER MEMBER BANK. THE CERTIFICATE SO SURRENDERED SHALL BE ENDORSED BY THE MEMBER BANK SURRENDERING IT OR BY THE MEMBER BANK TO WHICH IT WAS ORIGINALLY ISSUED AND SHALL BE

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(1). THE ACT OF CONGRESS ENTITLED "AN ACT TO PROVIDE FOR THE CONSOLIDATION OF NATIONAL BANKING ASSOCIATIONS", APPROVED NOVEMBER 7, 1918, PERMITS NATIONAL BANKS TO CONSOLIDATE ONLY WITH THE APPROVAL OF THE COMPTROLLER OF THE CURRENCY.

ACCOMPANIED BY PROPER PROOF OF THE CHANGE OF NAME OR CONSOLIDATION. UPON RECEIPT OF SUCH CERTIFICATE OF STOCK SO ENDORSED, TOGETHER WITH SUCH PROOF, THE FEDERAL RESERVE BANK SHALL CANCEL THE CERTIFICATE SO SURRENDERED AND SHALL ISSUE IN LIEU THEREOF TO AND IN THE NAME OF THE MEMBER BANK SURRENDERING IT A NEW CERTIFICATE FOR THE NUMBER OF SHARES REPRESENTED BY THE CERTIFICATE SO SURRENDERED, OR IF THE MEMBER BANK IS ENTITLED TO SURRENDER SOME OF THE STOCK WHICH IS REPRESENTED BY THE SURRENDERED CERTIFICATE, AND AN APPLICATION FOR THE SURRENDER AND CANCELLATION OF SUCH STOCK IS AT THE SAME TIME MADE IN ACCORDANCE WITH THIS REGULATION, THE NEW CERTIFICATE SHALL BE FOR THE NUMBER OF SHARES REPRESENTED BY THE SURRENDERED CERTIFICATE LESS THE NUMBER OF SHARES CANCELLED PURSUANT TO SUCH APPLICATION. ALL CASES WHERE CERTIFICATES OF STOCK ARE SURRENDERED AND NEW CERTIFICATES ISSUED IN LIEU THEREOF AND IN A DIFFERENT NAME SHALL BE REPORTED TO THE FEDERAL RESERVE BOARD BY THE FEDERAL RESERVE AGENT.

FEDERAL RESERVE BOARD

WASHINGTON

August 19,1920.

X-1997

Subject: Foreign Branches Open for Business on August 18,1920.

Gentlemen:-

It is intended to publish in the September issue of the Federal Reserve Bulletin a complete list of foreign branches of national banks and foreign banks doing business under agreement with the Federal Reserve Board, which were open for business on August 18,1920.

It will be appreciated, therefore, if you will furnish this office, as soon as convenient, with such a list for your institution.

Very truly yours,

Assistant Secretary.

Sent to all National Banks having foreign branches. and foreign banks doing business under agreement with the Federal Reserve Board.

FEDERAL RESERVE BOARD
WASHINGTON

August 20,1920.
X-1998

Subject: Tentative Program for Joint Conference.

Dear Sir:-

There is enclosed herewith tentative program for the joint conference of Federal Reserve Agents and Federal Reserve Bank Governors, to be held here on October 13-16, immediately in advance of the Convention of the American Bankers Association.

The Board would suggest that a committee of the Governors, composed of Messrs. Morss, of Boston; Case, of New York; Norris, of Philadelphia; Fancher, of Cleveland; and Seay, of Richmond, be requested to meet at their early convenience and prepare a program for the conference of the Governors to be held on October 14th, and to allot topics for the joint conference in accordance with the suggestion made in the concluding paragraph of the enclosed circular. The personnel of this committee is suggested for the reason that these five Governors can meet with a minimum of travel and loss of time from their business. It is understood that the Federal Reserve Agents already have a committee to work on their part of the program.

Very truly yours,

Enclosure.

Governor.

To Governors of all F.R. Banks.
Copy to each F.R. Agent.

August 20, 1920.

JOINT CONFERENCE OF FEDERAL RESERVE AGENTS
AND FEDERAL RESERVE BANK GOVERNORS, WASHINGTON,
OCTOBER 13-16, 1920.

The Board's plan with respect to the joint conference with the Federal Reserve Agents and Governors on October 13th and succeeding days is to have each body arrange its own program for separate discussion, while the Board will suggest a program for discussion at the joint meetings. The first joint meeting will be held at 10:30 or 11:00 a.m. on Wednesday, October 13th, and will continue throughout the day. Thursday, the 14th, will be reserved for the separate discussions by the Governors and Federal Reserve Agents of topics selected by themselves, and on the 15th the joint discussion will be resumed. Following is the Board's tentative list of topics for the joint discussions:

I CREDIT CONTROL

1. What are the objects sought to be attained by the policy of credit control in the existing circumstances?

Is the object

(a) To maintain or to strengthen reserves?

(b) To stabilize the existing situation by prevention of further expansion?

(c) To bring about a discriminating deflation by reducing the total volume of credit?

2. Can a substantial reduction in the volume of credit be effected without injury to the legitimate business of the country and without curtailment of essential production?

3. To what extent has one or more of these objects been attained in each District and in the country at large?

4. To what extent is it necessary to distinguish between the immediate objective of the policy of credit control and the remoter objective, such as reduction in the cost of living?

What is the proper conception of the "normal credit condition" which the Federal Reserve Banks should seek to bring about?

Note: Obviously if "liquidation" or "stabilization" of the existing credit situation are to be regarded as the objectives of the Federal Reserve policy of credit control, a condition which can be regarded as "normal" will be attained very much more quickly than if the objective is a reduction in considerable amount of the total volume of credit.

5. Methods of credit control. Consideration of the efficacy of different methods of credit control.

(a) Horizontal increase of rates, especially of commercial rates; a canvass of the experience of banks which have put into effect a 7% commercial rate, to wit, New York, Boston, Chicago and Minneapolis.

(b) Progressive rate schedules starting with 6% as a basic rate; a canvass of the experience of Federal Reserve Banks of Kansas City, Dallas, St.Louis and Atlanta.

(c) Other methods of dealing with the situation, such as the implication that increased offerings by member banks will force higher rates or recourse to the progressive rate; a canvass of the experience of the Federal Reserve Banks of Cleveland, Philadelphia, Richmond and SanFrancisco.

(d) Restricting issues of Federal Reserve notes to Federal Reserve Banks as a potential means of enforcing credit control; canvass of English experience and views.

6. Inter-Reserve Bank rediscounts as related to the problem of credit control. Is the existing policy and practice with respect to such rediscounts satisfactory and sound?

(a) To effect an approximate equalization of reserves?

(b) At the same rate fixed for its member banks by the bank granting the accommodation?

Note: When recourse was first had to inter-bank rediscounts it was thought that the value of a Federal Reserve Bank's endorsement was entitled to recognition in the form of a reduced discount rate. More recently this idea has been abandoned and rediscount transactions between Federal Reserve Banks are made at the rates established for member banks by the Federal Reserve Bank extending the accommodation. The question now arises, however, whether a Federal Reserve Bank which has been able to maintain high reserves by reducing the demands for accommodations from its own member banks, which are its depositors, should be required to extend accommodations to member banks in other districts through the medium of their Federal Reserve Banks at the same rates as are established for their own members.

II. LOANS SECURED BY LIBERTY BONDS AND VICTORY NOTES.

1. Is there any moral obligation resting upon any of the Federal Reserve Banks to establish rates lower than commercial rates for paper of this classification?

2. Would liquidation of loans of this class be retarded or promoted by the establishment of lower rates?

3. If lower rates are deemed desirable, would it be equitable and practicable to have such rates apply to original subscribers only?

4. Should member banks' collateral notes be fully secured, taking market value instead of face value as a basis?

5. If so, how and when could the new policy be put into effect with a minimum of friction?

III. FEDERAL RESERVE NOTE ISSUES.

1. Is the note-issue policy of the Federal Reserve system subject to legitimate criticism?

2. What connection is there between changes in the volume of credit and the volume of currency?

3. Is there any difference in relation to effect upon prices between the volume of credit and the volume of currency?

4. Can the note-issue policy of the Federal Reserve system be properly charged with any important responsibility for inflated prices, if so, what has been the responsibility and in what way does the issue of Federal Reserve notes promote or assist inflation?

5. Can the accepted principles of bank-note-currency regulation, applicable in normal circumstances when the commerce of the world is conducted on a gold standard, be safely taken as a guide in the abnormal circumstances now existing, when the gold standard is virtually suspended, except in the United States and Japan?

6. In connection with the policy of credit control should the present note-issue policy of the Federal Reserve system be changed and restrictions be thrown around the issue of Federal Reserve notes?

7. If the issue of Federal Reserve notes should be restricted, what form should the restriction take and what effect would different methods of restriction have?

(a) Imposition of charges against Federal Reserve notes upon the uncovered part of circulation issued to them at a given rate, for example, a fixed rate of 5% or a rate varying with the commercial rate.

(b) Would it be practicable to establish for each member bank a so-called normal currency limit and to impose charges upon member banks calling for notes in excess of their limit?

(c) Would it be advisable while continuing to have the Federal Reserve Banks pay all transportation charges on incoming currency, to have shipments of outgoing currency made at the expense of the consignees?

(d) Restriction by definition of the character of the paper acceptable as collateral by the Federal Reserve Agent against the issue of Federal Reserve notes. Should member banks' collateral notes or customers' notes secured by Government obligations be taken as collateral for Federal Reserve notes?

(e) Limitation of the total volume of Federal Reserve notes by the Federal Reserve Board, the maximum amount being fixed pro rata for each Federal Reserve Bank. (The Federal Reserve Board has statutory power to accept in part or to reject entirely all applications for Federal Reserve notes.)

Would restriction of note issues in any of the above mentioned ways operate to promote a better control of credit, and if so, what would be the effect upon the commerce and business of the country?

It is suggested that the Chairman of the Board of Directors of each Federal Reserve Bank bring this tentative program to the attention of the Executive Committee and that a committee of the Governors confer by correspondence with a committee of Federal Reserve Agents, and assign to each Governor and Federal Reserve Agent a part of the foregoing program for discussion. It is desirable that the program be covered fully and that each participant in the conference prepare carefully a paper treating upon the particular subject assigned to him.

FEDERAL RESERVE BOARD

WASHINGTON

August 23, 1920.
X-1999.

SUBJECT: EXPENSE MAIN LINE, LEASED WIRE SYSTEM,
FOR THE MONTH OF JULY, 1920.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-1999a and X-1999b, covering in detail operations of the main line, Leased Wire System, during the month of July, 1920.

Please deposit the amount payable by your bank in the general account, Treasurer U. S., on your books, and issue C/D, Form 1, National Banks, for Credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

To Governors of all F.R. Banks
except Chicago.

REPORT SHOWING CLASSIFICATION AND NUMBER
OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL
RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF JULY 1920.

From:	BANK BUSINESS	PER CENT OF TOTAL BANK BUSINESS(*)	FISCAL AGENCY	WAR FINANCE	TOTAL
Boston	56,547	4.21	5,481	-	62,028
New York	244,107	18.20	27,856	929	272,892
Philadelphia	50,045	3.73	6,536	-	56,581
Cleveland	103,841	7.74	10,665	23	114,529
Richmond	85,636	6.38	3,886	-	89,522
Atlanta	118,767	8.85	11,212	30	130,009
Chicago	185,228	13.80	11,128	-	196,356
St. Louis	117,480	8.75	8,664	-	126,144
Minneapolis	45,436	3.39	6,588	-	52,024
Kansas City	101,085	7.53	10,894	-	111,979
Dallas	89,653	6.68	5,008	169	94,830
San Francisco	144,085	10.74	10,154	-	154,239
Total F.R. Banks	1,341,910	100.00	118,072	1,151	1,461,133
Washington	257,013		138,264	100	395,377
Grand total	1,598,923		256,336	1,251	1,856,510
Percent of total	86.12		13.81	.07	100.

Bank business	1,598,923 words,	or 86.18%
Fiscal Agency business	256,336 "	" 13.82%
Total	1,855,259 words,	or 100.00%

(*) These percentages are used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-1999b).

FEDERAL RESERVE BOARD
WASHINGTON
August 23, 1920.

7227

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM
JULY - 1920

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable Federal Reserve Board
Boston	$ 220.00	$ 6.00	$ -	$ 226.00	$ 621.66	$ 226.00	$ 395.66
New York	640.00	15.00	-	655.00	2,687.48	655.00	2,032.48
Philadelphia	225.00	-	-	225.00	550.78	225.00	325.78
Cleveland	500.00	6.40	-	506.40	1,142.93	506.40	636.53
Richmond	218.75	-	(*)50.00	268.75	942.09	268.75	673.34
Atlanta	240.00	-	-	240.00	1,306.82	240.00	1,066.82
Chicago	(#)4,114.13	25.00	-	(#)4,139.13	2,037.76	4,139.13	2,101.37(**)
St. Louis	150.00	50.00	-	200.00	1,292.05	200.00	1,092.05
Minneapolis	265.54	-	-	265.54	500.58	265.54	235.04
Kansas City	190.00	-	-	190.00	1,111.91	190.00	921.91
Dallas	150.00	-	-	150.00	986.39	150.00	836.39
San Francisco	175.00	-	-	175.00	1,585.90	175.00	1,410.90
Federal Reserve Board			7,568.26	7,568.26			
TOTAL	$7,088.42	$102.40	$7,618.26	$14,809.08	$14,766.35	$7,240.82	$9,626.90
				42.73(&)			2,101.37(@)
				$14,766.35			$7,525.53

(#) Includes salaries of operators Washington Office $1,989.98

(*) Cut-in at Washington on Richmond-Baltimore circuit.

(**) Credit.

(@) Amount reimbursable to F. R. Bank of Chicago account payment in excess of prorata share.

(&) Amount received from War Finance Corporation covering business for the month of June.

FEDERAL RESERVE BOARD
WASHINGTON
August 23, 1920.

FEDERAL RESERVE BOARD

WASHINGTON

X-2000

August 23, 1920.

SUBJECT: Report of Currency Operations.

Dear Sir:

In order to assist the Banks in the preparation of their monthly reports on currency operations requested in the Board's letter of August 10th, X-1992, the Board has amplified several of the captions of accounts on this form and is having a new supply printed, containing these changes, which will go forward to you in the course of the next week or ten days. In order that you may be advised of these changes immediately to assist you in the compilation of your records in connection with the rendition of this report, there is given on the attached sheet a list of the captions of accounts in the order in which they will be shown on the revised F. R. B. Form 160.

It will be noted that the caption "Received by Bank during report period" has been changed to read "Received and counted by Bank during report period". It is intended that reports on Form 160 will only include currency actually counted during the report period. The Board desires that each Federal Reserve Bank render with its report a separate statement showing the total amount of unsorted currency on hand which should agree with item BARK on Form 34, and, in case it is the practice of any bank to estimate by kinds its unsorted currency on hand the Board will appreciate receiving this information also.

As stated in its letter of August 10th, referred to above, the Board desires a separate report giving the operations of each kind of paper currency, as follows:

Federal Reserve notes,
Federal Reserve Bank notes,
United States notes,
Silver certificates,
Gold certificates,
National Bank notes.

As it was thought most desirable to have one form to be used in reporting operations in all kinds of currency rather than separate forms, it will be apparent that Form 160 must not be interpreted literally.

Very truly yours,

Assistant Secretary.

To all Chairmen.

BALANCE ON HAND LAST REPORT DATE....................192....

Comptroller of Currency - New..........................
Subtreasuries - New....................................
F. R. Agent - New......................................
" Fit for use..
" Unfit for use..
Vault of F. R. Bank - New..............................
" Fit for use..
" Unfit for use..
Total..

RECEIVED AND COUNTED BY BANK DURING REPORT PERIOD:

Fit for use..
Unfit for use..
Sub-total..
New..
Total Receipts...

Sent to U. S. Treasury for redemption.............
F. R. notes returned to Agent:
" Fit for use..........
" Unfit for use........
Total..................................

PAID OUT BY BANK DURING REPORT PERIOD:

New..
Fit for use..
Total..

BALANCE ON HAND.....................................192....

Comptroller of Currency - New..........................
Subtreasuries - New....................................
F. R. Agent - New......................................
" Fit for use..
" Unfit for use..
Vault of F. R. Bank - New..............................
" Fit for use..
" Unfit for use..

Total..

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS. X-2001

For immediate release.

August 26,1920

In view of conflicting interpretations of the attitude of the Federal Reserve System with respect to credit, Governor Harding this afternoon stated that the Federal Reserve Board and the Federal Reserve Banks are adhering consistently to the policies outlined on frequent occasions during the past year, and there is little to say except to reiterate statements already made. The Federal Reserve Board has never undertaken to classify any business or industry as essential or non-essential, and does not intend to do so.

In a statement published immediately after the conference last May with members of the Federal Advisory Council and the banker directors of the Federal Reserve Banks the policies of the Federal Reserve System were fully explained. The Board is convinced that these policies are wise and salutary, and is confident that results will demonstrate their soundness.

Form of Agreement required by the Federal Reserve Board of Foreign Banking Corporations as a Condition Precedent to the Purchase of their Stock by National Banks under the Provisions of Section 25 of the Federal Reserve Act.

A. GENERAL:

In order to enable you and other corporations of the same character to compete effectively in foreign countries, it is necessary that latitude be given in the development of business abroad, and the Board believes that, for the present at least, restrictions should not be rigid or too much in detail, and that it is desirable to prescribe only general rules for your guidance. As occasion required, the Board will modify its regulations in such manner as experience may prove to be necessary.

B. POWERS:

1. In the United States:

a. Deposits: It is clear that in order to avoid competition in the matter of receiving deposits with national banks and state banks, which do not enjoy the wide powers which you must necessarily possess in order to compete successfully in foreign countries, you should not be permitted in the United States to receive individual deposit accounts or domestic bank exchange or collection accounts. You will be permitted, however, to receive any deposit which is incidental to, or for the purpose of, carrying out transactions in foreign countries or dependencies of the United States, where you have established agencies, branches, or business connections. Deposits of this character may be made by individuals, firms, corporations or banks, whether foreign or domestic, and may be time deposits or on demand.

Reserves: It will be required that, against all such deposits received in the United States, you maintain a reserve in the amount required by law against such deposits of member banks located in central reserve cities. The Federal Reserve Banks are authorized, for purposes of clearing or collection, to receive deposits from non-member banks, and your reserve against domestic deposits may be maintained by opening a clearing account with the Federal Reserve Bank of your district, where an adequate balance may be carried by you.

b. Acceptances:

In the matter of acceptance of drafts and bills of exchange, the Board has concluded that you should be authorized to accept for all transactions permissible to member banks under the provisions of the Federal Reserve Act, provided that you make no acceptance for account of any one drawer in an amount aggregating at any time in excess of ten per centum of your subscribed capital and surplus, unless the transaction be fully secured, or represents an exportation or importation of merchandise and is guaranteed by a bank or banker of undoubted solvency; and provided that whenever the aggregate of your acceptances outstanding at any time (a) exceeds the amount of your subscribed capital and surplus, fifty per centum of all acceptances in excess of such amount shall be fully secured, or (b) exceeds twice the amount of your subscribed capital and surplus, all acceptances outstanding in excess of such amount shall be fully secured, whichever of said two requirements shall call for the smaller amount of secured acceptances; and provided further that in no event shall the aggregate of all your acceptances outstanding, plus the total of all deposits held by you, whether foreign or domestic, exceed twelve times the amount of your subscribed capital and surplus, except with the approval of the Federal Reserve Board.

Reserves:

It must be understood, furthermore, that against all acceptances which mature in thirty days or less a reserve of at least fifteen per centum shall be maintained, and that against all acceptances outstanding which mature in more than thirty days a reserve of at least three per centum shall be maintained. Reserves against acceptances must be in liquid assets of any or all of the following kinds:

1. Cash
2. Balances with other banks
3. Bankers' acceptances; and / or
4. Such securities as the Board may, from time to time, permit.

2. In foreign countries:

You are authorized to accept deposits of any kind from banks, individuals and corporations in foreign countries, and generally to exercise such powers and to do such things as are incidental to banking conducted in the countries and dependencies in which you may transact business. The Board assumes however that in the matter of receiving deposits, making loans, and in all other business conducted in foreign countries, you will be guided primarily by the laws of those countries and by sound business judgment and banking principles. While the Board will not require you to carry abroad cash reserves against deposits abroad, should it appear at any time that your business methods are such as to afford insufficient protection, the Board will formulate such restricting regulations as may be proper in the circumstances.

C. REPORTS AND EXAMINATIONS:

1. You will be required to make two reports annually to the Federal Reserve Board, covering such details as may be prescribed.

2. You will also be subject to such examinations as the Board may order, these examinations to be made either by employees or agents of the Board or of the Federal Reserve Bank of your district.

TOPICS SUGGESTED BY THE FEDERAL RESERVE BOARD FOR DISCUSSION AT THE MEETING OF THE FEDERAL ADVISORY COUNCIL
SEPTEMBER 20, 1920.

I. CREDIT CONTROL

1. What are the objects sought to be attained by the policy of credit control in the existing circumstances?

   Is the object

   (a) To maintain or to strengthen reserves?

   (b) To stabilize the existing situation by prevention of further expansion?

   (c) To bring about a discriminating deflation by reducing the total volume of credit?

2. Can a substantial reduction in the volume of credit be effected without injury to the legitimate business of the country and without curtailment of essential production?

3. To what extent has one or more of these objects been attained in each District and in the country at large?

4. To what extent is it necessary to distinguish between the immediate objective of the policy of credit control and the remoter objective, such as reduction in the cost of living?

   What is the proper conception of the "normal credit condition" which the Federal Reserve Banks should seek to bring about?

   Note: Obviously if "liquidation" or "stabilization" of the existing credit situation are to be regarded as the objectives of the Federal Reserve policy of credit control, a condition which can be regarded as "normal" will be attained very much more quickly than if the objective is a reduction in considerable amount of the total volume of credit.

5. Methods of credit control. Consideration of the efficacy of different methods of credit control.

   (a) Horizontal increase of rates, especially of commercial rates; a canvass of the experience of banks which have put into effect a 7% commercial rate, to wit, New York, Boston, Chicago, and Minneapolis.

(b) Progressive rate schedules starting with 6% as a basic rate; a canvass of the experience of Federal Reserve Banks of Kansas City, Dallas, St. Louis, and Atlanta.

(c) Other methods of dealing with the situation, such as the implication that increased offerings by member banks will force higher rates or recourse to the progressive rate; a canvass of the experience of the Federal Reserve Banks of Cleveland, Philadelphia, Richmond, and San Francisco.

(d) Restricting issues of Federal Reserve notes to Federal Reserve Banks as a potential means of enforcing credit control; canvass of English experience and views.

6. Inter-Reserve Bank rediscounts as related to the problem of credit control. Is the existing policy and practice with respect to such rediscounts satisfactory and sound?

(a) To effect an approximate equalization of reserves?

(b) At the same rate fixed for its member banks by the bank granting the accommodation?

Note: When recourse was first had to inter-bank rediscounts it was thought that the value of a Federal Reserve Bank's endorsement was entitled to recognition in the form of a reduced discount rate. More recently this idea has been abandoned and rediscount transactions between Federal Reserve Banks are made at the rates established for member banks by the Federal Reserve Bank extending the accommodation. The question now arises, however, whether a Federal Reserve Bank which has been able to maintain high reserves by reducing the demands for accommodations from its own member banks, which are its depositors, should be required to extend accommodations to member banks in other Districts through the medium of their Federal Reserve Banks at the same rates as are established for their own members.

II. LOANS SECURED BY LIBERTY BONDS AND VICTORY NOTES.

1. Is there any moral obligation resting upon any of the Federal Reserve Banks to establish rates lower than commercial rates for paper of this classification?

2. Would liquidation of loans of this class be retarded or promoted by the establishment of lower rates?

3. If lower rates are deemed desirable, would it be equitable and practicable to have such rates apply to original subscribers only?

4. Should member banks' collateral notes be fully secured, taking market value instead of face value as a basis?

5. If so, how and when could the new policy be put into effect with a minimum of friction?

III. FEDERAL RESERVE NOTE ISSUES.

1. Is the note-issue policy of the Federal Reserve System subject to legitimate criticism?

2. What connection is there between changes in the volume of credit and the volume of currency?

3. Is there any difference in trelation to effect upon prices between the volume of credit and the volume of currency?

4. Can the note-issue policy of the Federal Reserve System be properly charged with any important responsibility for inflated prices, if so, what has been the responsibility and in what way does the issue of Federal Reserve notes promote or assist inflation?

5. Can the accepted principles of bank-note-currency regulation, applicable in normal circumstances when the commerce of the world is conducted on a gold standard, be safely taken as a guide in the abnormal circumstances now existing, when the gold standard is virtually suspended, except in the United States and Japan?

6. In connection with the policy of credit control should the present note-issue policy of the Federal Reserve System be changed and restrictions be thrown around the issue of Federal Reserve notes?

7. If the issue of Federal Reserve notes should be restricted, what form should the restriction take and what effect would different methods of restriction have?

   (a) Imposition of charges against Federal Reserve notes upon the uncovered part of circulation issued to them at a given rate, for example, a fixed rate of 5% or a rate varying with the commercial rate.

   (b) Would it be practicable to establish for each member bank a so-called normal currency limit and to impose charges upon member banks calling for notes in excess of their limit?

   (c) Would it be advisable while continuing to have the Federal Reserve Banks pay all transportation charges on incoming currency, to have shipments of outgoing currency made at the expense of the consignees?

   (d) Restrictions by definition of the character of the paper acceptable as collateral by the Federal Reserve Agent against the issue of Federal Reserve notes. Should member banks' collateral notes or customers' notes secured by Government obligations be taken as collateral for Federal Reserve notes?

(e) Limitation of the total volume of Federal Reserve notes by the Federal Reserve Board, the maximum amount being fixed pro rata for each Federal Reserve Bank. (The Federal Reserve Board has statutory power to accept in part or to reject entirely all applications for Federal Reserve notes.)

Would restriction of note issues in any of the above mentioned ways operate to promote a better control of credit, and if so, what would be the effect upon the commerce and business of the country?

It is respectfully suggested that the President of the Federal Advisory Council assign to each member of the Council a part of the foregoing program for his special study and consideration in order that each member may come prepared to discuss the particular topics assigned to him. At the conclusion of the individual discussions a general discussion should follow.

F E D E R A L   R E S E R V E   B O A R D

STATEMENT FOR THE PRESS

X-2004

For release in morning papers,
Wednesday, September 1,1920.

The following is a review of general business and financial conditions throughout the several Federal Reserve Districts during the month of August, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Continued readjustment of economic and business conditions generally has been the characteristic feature of the month of August. There are already indications that the transition period is nearing a halt and that an improvement of the general situation is in sight. Nevertheless, there is still much to be done before business, prices, and industry can be regarded as having settled down upon a stable basis. In manufacturing districts Federal Reserve Agents report dullness of business accompanied by unusual reaction and hesitation on the part of middlemen and dealers. This is the result of reaction among consumers who have refused to pay excessive prices and of some tendency to unemployment in various directions due to the letting down of demand. In the agricultural regions the promising crop prospects have given a much more hopeful turn to affairs and have tended to minimize the broader questions of price adjustment, money rates, and industrial unrest. In those parts of the country the paramount idea is production upon a large scale accompanied by improvement of transportation and better labor conditions. Where the processes of distributing and financing are more important, the prospect of improvement is less immediate, although fundamental conditions are slowly improving and the underlying business situation is usually described as sound. Prices still show a tendency to fall, and for the month of August the Board's index number of wholesale prices has shown a reduction of seven points. While differences were noted between the indexes of some of the price-reporting agencies early in the year, there is now practical uniformity, although some show greater or more rapid declines than others.

In District No. 1 (Boston) business conditions generally have been characterized by "dullness to a degree rather more than usual," a fact which is assigned to the "wide-spread and undoubtedly heavy liquidation* * * on the part of merchants" with the result of cancellation of orders and "almost universal curtailment of production" by establishments engaged in producing wearing apparel. The effect of the situation has been modified by the fact that reaction has been so closely restricted to a particular field. Retail merchants show great caution.

In District No. 2 (New York) it is found that "the period from July 1 to August 20 has been one of shifting credit, but with no substantial change in the volume of bank loans." The number of banks borrowing from the Federal Reserve Bank has decreased from 380 early last November when the discount rate was raised, to 313 on August 1 of this year. "Manufacturers and merchants have at last realized that the period of constant expansion * * * has about reached the limit of its possibilities". As to the price situation, the opinion is expressed that "while some prices were increasing and many remained stable, so large a number of important commodities have declined" as to indicate that "with further credit inflation checked * * * natural laws are once more operating."

In District No. 3 (Philadelphia) prices in textiles, leather and shoes continued to drop and the same is true of cloths and clothing, while there seems to be some ground for fearing a recurrance of labor unrest. Slight improvement in transportation is encouraging, but inadequate. Retail trade shows a favorable prospect.

In District No. 4 (Cleveland) the demand for funds is still heavy, collections are somewhat variable, but "satisfactory when all circumstances are considered", and lake trade ore movement and coal shipments are improving.

In District No. 5 (Richmond) the outstanding feature of the information received by the Reserve Bank is "optimism and confidence in the basic soundness of general conditions." It is nevertheless admittedly hard to specify definite developments which justify this confidence. Manufacturers are receiving insufficient orders to keep them running steadily in all cases, but they are taking a more hopeful view.

In District No. 6 (Atlanta) improvement in crop prospects which was so strong a factor during July has been somewhat offset by reaction in August. Prices are moving downward. Some wholesalers show reductions in sales but retailers report an increase of 16.3 per cent in net sales. On the whole, the position is hopeful.

In District No. 7 (Chicago) "caution rules in business." Retailers have found limits in the popular purchasing power and business is "slowing up a little" with the net result of "a waiting attitude." "Dearth of liquid capital" is largely responsible for the situation.

In District No. 8 (St.Louis) "the volume of trade holds up well as contrasted with the corresponding period last season and to date there has been no marked decline in the purchasing power of the public." There is evidence of "more definite and significant steps in the direction of readjustment than has been observed up to this time." Greater optimism and a greater disposition to economy and caution are observed both among the public and among merchants. Crops are large and prices for them are high.

In District No. 9 (Minneapolis) "the slowing up of business which was noted during June has been offset to a considerable extent during July by the rising tide of business confidence." However, "stringent money conditions prevail" and "liquidation of merchandise has progressed very slowly." Some food prices have fallen. There has been no shortage of labor to handle the crop. Transportation conditions * * * are the keystone to the business" side of agriculture.

In District No. 10 (Kansas City) business men "see no cause for serious apprehension on account of * * * price adjustment, money tightness or industrial unrest." They have produced this year the largest all-round crops of food products in history and believe that improvement of transportation and the rapid movement of the goods to the consumer is the urgent need of the case.

In District No. 11 (Dallas) favorable factors, include "further improvement in the condition of crops and ranges; increase in volume of wholesale and retail trade; increase in building activity; increase in farm granaries for the storage of wheat awaiting shipment; and improved movement and supply of freight cars." As against these desirable factors there is noted "excessive rains in the cotton belt, conducive to depredations of insects; further inflation of credit; increase in business failures; depression in demand for products of the livestock industry; and shortage of labor for harvesting cotton." Trade has reacted well from seasonal dullness, but it is believed that "the margin of surplus income from production this year will not be sufficient to support any radical expansion of industry and commerce" in the year 1920-21.

In District No. 12 (SanFrancisco) it is reported that "favorable growing conditions during the past month have improved the prospects for good crops in all sections * * * except some of the dry farming sections." Labor is well employed and only one considerable strike is in progress.

Harvesting is progressing satisfactorily with fairly adequate labor, but car shortage is present.

The agricultural situation has during the month of August reached a point at which returns can be counted upon with much more certainty than heretofore and the outlook has continued to be in the main favorable. In District No. 9 (Minneapolis) the Federal Reserve Bank's own estimate of crop yield shows much larger production of wheat, oats, barley, and flax than in 1919, with rye only a little behind last year's. There is "a total production of 610,000,000 bushels of small grains as compared with 421,000,000 bushels in 1919. The corn crop prediction of 245,400,000 bushels on August 1st is about 3,000,000 bushels better than a year ago." In District No. 10 (Kansas City) the situation is equally favorable. "All in all, the reports now show that 1920 is one of the best, if not the very best, crop in years." The Bank is disposed to believe that the Government's estimate of 261,226,000 bushels of wheat as compared with 301,000,000 bushels last year is too low, while oats will be hardly less than 200,000,000 bushels and corn has made remarkable progress, the estimated yield now being 483,000,000 bushels. Other crops are in excellent condition, especially hay. On the Pacific Coast the total estimated yield of wheat is a little under 100,000,000 bushels for the district, as compared with 101,000,000 bushels in 1919. Corn, oats and hay show good advances over 1918 and 1919. The hop crop is much larger than last year and 75 per cent of it has been sold. While the deciduous fruits on the Pacific Coast are expected to be greater than was anticipated. In the Pacific Northwest the yield of apples is estimated at 25,500 carloads as against 32,600 carloads in 1919. In the middle west, District No. 7 (Chicago) reports that crops "promise well with indications for a larger production than a year ago in all excepting wheat."

Accompanying the generally favorable July outlook for cotton was a decrease in price. In District No. 11 (Dallas) the "cotton responded wonderfully to the best July weather that the crop has enjoyed for several years," but subsequent excessive rains are conducive to depredations of insects. This is reflected in the figures of condition on July 25 as against June 25, while the Federal Reserve Bank's own detailed survey of counties as of August 1 seems encouraging. District No. 6 (Atlanta) reports the condition of cotton not very different in July from that of June and states that the boll-weevil is now present in practically all of the cotton counties of Georgia. While the Florida cotton crop has improved slightly, that of Louisiana has deteriorated, but the Mississippi and Tennessee crops show improvement. As for August developments, "the reports of damage by excessive rains during the first two weeks in August have been somewhat discouraging."

In livestock, District No. 11 (Dallas) reports that ranges are in fine condition, the stock itself being "prime" and the situation generally favorable. In District No. 10 (Kansas City) fine pasturage has tempted many growers and feeders to hold their stock, and car shortage has tended to accentuate the same situation.

The movement of agricultural products to market is still affording the basis for more or less anxiety and uncertainty. There has been improvement in railroad conditions, but it has been insufficient. In District No. 9 (Minneapolis) the agitation for empty cars suitable for grain has brought substantial results, but not all that had been expected. Receipts of empty grain cars for the five weeks ending July 3 averaged 1,629 cars per week or 35 per cent of those ordered sent, while in the four weeks ending August 1 the weekly average was 2,427 cars or 53 per cent. "This improvement of 800 cars per week is encouraging, although not sufficient to meet the needs of moving the new crop." Total grain receipts during July, 1920, are reported by the Minneapolis Chamber of Commerce as about 10,000,000 bushels, while shipments were 8,061,000 bushels. On the whole there has been an increase of about 10 per cent in the receipts and a decrease of about 17 per cent in the shipments, as compared with June, while there is a decrease of about 5 per cent in total receipts and shipments of flour for the same period. The amount of wheat in terminal elevators in Minneapolis and Duluth on July 31 was 2,145,000 bushels, as against 912,000 bushels on the corresponding date a year ago. In District No. 10 (Kansas City) the movement of grain to the markets of the District has been in greatly reduced volume as compared with a year ago, notwithstanding larger crops. During July, 1919, receipts of grain and flour at Kansas City were 13,841,550 bushels, but for July, 1920, 6,770,250 bushels. Shipments in July, 1919 were 3,132,000 bushels and in July, 1920, 4,498,000 bushels. Figures of July receipts and shipments at Omaha, St.Joseph, and Wichita and Oklahoma City were less than a year ago by 40 to 60 per cent, due to the car shortage. It is now thought that it would be better for the grower to provide storage for himself and to distribute the marketing of grain over a longer period. Grain markets during the month have been active. Prices declined substantially at Minneapolis during July and the early part of August, while at Kansas City "there were sensational declines in prices." This is ascribed to "favorable crop reports." Reports from mills representing 75% of the flour producing capacity of the Minneapolis District show operations at 44.6% of full capacity during the four weeks ending July 31, as compared with 46.8% in the four weeks ending July 3, and 40.5% one year ago. Recent trade reports indicate sales are still small though inquiry is fairly large.

Livestock prices also show a downward drift in some branches; Minneapolis reporting substantial reductions in beef prices and a moderate reduction in lambs. Receipts of cattle and calves at fifteen principal markets during July were 1,188,019 head, as compared with 1,290,265 head during June and 1,527,881 head during July, 1919, the respective index numbers being 118, 128 and 152. Receipts of hogs amounted to 2,115,639 head during July, corresponding to an index number of 92, as compared with 2,746,390 head during June and 2,411,539 head during July, 1919, the respective index numbers being 125 and 110. Receipts of sheep for July were 1,301,458 head as compared with 1,006,528 head during June and 1,558,767 head during July, 1919, the respective index numbers being 95, 74 and 114. District No. 10 (Kansas City) reports that "the July movement of livestock to the six markets of this District was 8 per cent less in volume than in June and 23.5 per cent less than in July, 1919. A total of 1,459,891 animals were received at the markets during the month, as against 1,586,193 in the previous month and 1,909,890 in the corresponding month last year. A large part of the losses in receipts was on hogs.

The heavy declines indicated, especially in the movement of cattle, calves, and sheep, are generally attributed to the smaller movement from areas affected by the drought at this time last year.

An important situation has developed in connection with the marketing of grain. According to District No. 7 (Chicago) "it will be recalled that last year there was a heavy carry-over of grain, farmers starting out with the intention of holding for a few months for a more favorable price level. They encountered an extremely bad transportation situation which prevented the marketing of grain when prices did improve. The result was rather disastrous, as in many instances farmers were forced to carry grain for many months against their wish and to borrow at the banks. Much of this is still being carried by the banks, either on farms or in country elevators. This tends to make the farmer cautious. If cars are obtainable the farmer as a rule is not delaying shipment of his grain to market. Another factor militating against widespread storage of grain is the uncertainty as to the future course of the commodity markets."

The iron and steel situation during the month has not materially changed. Railroad conditions are somewhat better but advances in freight rates have introduced a new factor into the price prospects. Pig iron has advanced during the past few weeks and Bessemer iron, as well as other products, has also risen. The movement of iron and steel from the mills and furnaces has continued on the increase and the leading producer in the Pittsburgh District has reduced its accumulations by about 65,000 tons. The trend toward the easing up of congestion at the works is more pronounced in some cases than in others. In District No. 3 (Philadelphia) iron and steel producers "still suffer seriously from transportation inadequacy". In some lines a slackening of demand has been noticed. Higher freight rates are expected to add considerably to manufacturing costs. Both in Districts No. 3 and No. 4 there is a falling off in the daily output of pig iron and the same is true of some steel products. In District No. 6 (Atlanta)"the shortage of freight cars has, however, grown more serious during the past month." Pig iron is piling up in the District and iron and steel movements are greatly delayed. Consumption of pig iron is holding up well and steel mills are working at more then 80 per cent of capacity. Taken all in all, the outlook of the industry is favorable. In District No. 3 (Philadelphia), for instance, a large manufacturer whose principal product is bar iron is optimistic about conditions for the rest of the year, while rails are in strong demand and miscellaneous steel products are finding a good market. The unfilled orders of the United States Steel Corporation at the close of July were 11,118,468 tons, corresponding to an index number of 211, as compared with 10,978,817 tons at the close of June, corresponding to an index number of 208. Steel ingot production during July was 2,802,818 tons, as compared with 2,980,690 tons during June the respective index numbers being 116 and 123. Pig iron production during July was 3,067,043 tons, as compared with 3,043,540 tons during June, the respective index numbers being 132 and 131, although the average daily output was somewhat less during July.

Lake ore shipments from the Superior region in July were 9,638,606 tons, bringing the total to August 1 to 26,079,111 tons which compares with 25,181,848 tons on the corresponding date in 1919, and 26,608,933 tons in 1918. The 1918 tonnage is that which the producers have set out to duplicate during the present season, and it is shown that they are only slightly below their goal."

Congestion on the railroads, which was the source of so much anxiety and difficulty during the earlier part of the summer is gradually yielding to special effort to relieve it and more progress has been made in connection with coal than with any other product. District No. 4 (Cleveland) reports that the outlook in the lake trade is a little better than a month ago. The coal movement has shown a steady gain since the recent orders of the Interstate Commerce Commission. In District No. 3 (Philadelphia) "moderate improvement * * * has taken place during the past month. * * * Cars are moving a little more freely to destinations." There has been no reduction in prices for spot coal. New freight rates are expected to add from 65 to 85 cents a ton to the cost of anthracite to the retailer. In District No. 6 (Atlanta) Alabama coal production shows a little improvement but strikes are still on in various fields. Coke production is below the demand and car shortage is still felt. The movement of bituminous coal to New England has been improved in order to relieve the shortage which threatened in that section. There has been a large movement of cars during the late July and early August to the New England factory region and this has included both bituminous and anthracite coal. It is expected that the distribution will improve steadily from this time forward. In District No. 4 (Cleveland) coal movement is showing a steady gain all round. There is still shortage in various parts of the country, not for immediate needs but as compared with the estimated demand of coming months. The bituminous output is estimated by the Geological Survey as 226,000,000 tons for the first half of this year (1920) as compared with 218,000,000 tons in the corresponding period last year. Allowing for importation and exportation there is an indicated balance for domestic consumption of 215,000,000 tons, against 211,000,000 tons last year. Production of bituminous coal for the country at large during July amounted to 45,526,500 tons as compared with 44,462,500 tons during June and 42,698,000 tons during July, 1919, the respective index numbers being 123, 120 and 115. Sporadic labor difficulties in the coal industry have to some extent retarded production, but in the main the figures show that conditions have been reasonably favorable. Production of anthracite coal during July amounted to 7,785,000 tons, as compared with 7,754,000, tons during June and 7,803,000 tons during July 1919, the index number for all three months being 105.

In petroleum there is a growth in production, both in Kansas, Oklahoma, Wyoming and Colorado. For the two first-named states there is an increase during the first seven months of 1920 as compared with the same period in 1919 from 64,189,000 barrels to 79,360,000 barrels. Developmental operations in the Oklahoma field, including Kansas, Oklahoma and Wyoming, have been very satisfactory during July.

The stock of oil in storage in District No. 10 (Kansas City) on July 1, 1920, was 60,712,000 barrels as against 61,604,000 barrels on January 1st. On the Pacific Coast the daily production during July averaged 279,000, barrels as compared with 273,000 in June. Stored stocks were 24,405,000 barrels on July 31, a decrease of 964,150 barrels during the month. Shortage of gasoline continues to be general on the Pacific Coast, while in District No. 10 (Kansas City) the summer demand is at its height and shipments to the Pacific Coast are being made from the mid-continent and Rocky Mountain fields. The market for petroleum during the month of July was steady and quiet, with the price of crude oil generally subject to little change. In District No. 11 (Dallas) drilling results improved during July and for the District as a whole 868 wells were completed as compared with 650 in June. The daily average output during July was 375,000 barrels, a decrease of 7,500 from June. The outlook in the Texas field is regarded as very promising.

In metal mining there was curtailment of production at the opening of July with regard to zinc and lead, but later there was a partial resumption of work, resulting in an average weekly output of about 10,000 tons at the end of the month. Curtailment and rearrangement of production has helped to adjust the labor situation. There has developed a relative reduction of output, but a deficiency of cars has continued to be marked, even as compared with the supply of ores on hand. Cars intended for other products are now being used to ship ores. The price of zinc ores has increased from $45 at the opening of July to $47.50 for 60 per cent concentrates. Lead ore prices also showed a decided advance for the month from $90 to $100 per ton on 80 per cent lead. The average output has fallen off in the Colorado metal mining district Production reported during July by reduction plants in the Cripple Creek district totalled 38,222 tons or a gross value of $468,568. Some indications of improvement in mining activity are reported. With the exception of zinc, however, recent trade reports indicate extreme quiet in these industries, little interest being shown by consumers.

General manufacturing has varied widely in different parts of the country during the months both of July and August as a result of sporadic depression and suspension of work, coupled with difficulties of various kinds in connection with the continuation of production. There is still depression in woolens and cottons, knit goods and underwear, wearing apparel, shoes, leather, and various other articles. Resumption of activity immediately after Labor Day is promised in a number of sections and it is held that there is some indication that retailers' stocks are becoming so reduced that active buying must soon be resumed. District No. 1 (Boston) reports that tanneries in the District are still closed or operatiing up to about 50 per cent basis. While there has been some resumption of shoe manufacturing, numerous large concerns are still either wholly closed down or operating on short time and they have curtailed their purchases of leather. Prices for side leathers are off 10 to 13 per cent, but still 50 to 100 per cent higher than in 1913-1914. Hides are accumulating. District No. 5 (Richmond) reports that shoes are moving from manufacturer to retailer slowly, while buyers are holding off in the hope of reductions. Leather has weakened but there is little prospect of the saving reaching the consumer for a good while owing to the length of time required in the shoe production. In District No. 7 (Chicago) first hands are holding leather and are finding more than usual difficulty in financing it. Cancellations are still active. Sales are 50 per cent off from 1919 for the first seven months of 1920. The automobile demand for leather "is the only really rosy spot in the picture". In District No. 3 (Philadelphia) shoe manufacturing plants have been shut down or running at minimum capacity, but have now resumed operations preparing samples. Orders are slow in being placed. The public has been refraining from purchasing high priced shoes but have bought freely of reductions. Stagnation still exists in leather. Few tanneries are operating and the transportation situation is in part blamed. From District No. 8 (St. Louis) it is reported that business in shoes is steady, prices are definitely lower, but the decline is not as marked as had been looked for (except in a few special grades), and that the country merchants are in a somewhat more steady frame of mind.

As for wool and woolen goods, District No. 1 (Boston) reports that the situation in the wool industry is difficult to diagnose, the Boston market being dull, although the supply, especially of the finer grades, available for use is not excessive, if production should become normal. Woolen mills in New England are either closed or running on part time with no intimation when they will resume on full time. Returned goods are stated to be insufficient to meet the public demand when it revives. "Briefly, therefore, the wholesale situation is one of waiting and caution with hand to mouth buying on the part of the manufacturer". In District No. 3 (Philadelphia) "there is an unprecedented situation " with "an absence of activity such as has never been known." There is practically no market for raw wool and as a result there are no regular price quotations. The public has refrained from buying and retailers have had to resort to special sales. "Such is the apathy shown in the market that samples for spring (1921) materials which in normal times would have been displayed in July have not been prepared in numerous instances." In clothing trade, District No. 5 (Richmond) states that "clothing manufacturers report dull business with a decided reluctance on the part of the retailer to enter into further contracts." A change in the demands of customers is noted and it is believed that lower priced goods made of coarser wool may figure more largely during the coming season. District No. 7 (Chicago) finds that "fine wools are scarce and coarse wools are a drug on the market." There has been "a flood of cancellations, slow payment for goods already delivered, and a general slowing down of the apparel industries."

In cottons, District No. 1 (Boston) reports that "dullness in cotton this month is fully as pronounced as during *** June and July and dealers report only buying by the mills in small lines for immediate requirements." Nevertheless, there has not been as general curtailment in production as had been anticipated. According to United States cotton statistics, cotton held in mills in July was 660,893 bales, while the amount consumed during July was 198,000 bales. Prices for combed and carded yarns were lower at the middle of August than earlier, and as consumers of spot yarn have found their supply was plentiful they have been in no mood to buy in advance of current needs.

In District No. 3 (Philadelphia) further curtailment of operations has been noted among cotton yarn manufacturers. Spinners are accumulating large stores of finished products. The acute situation of the cotton yarn industry is attributed to the restriction of credit by the banks, although the policy of the banks is believed by larger manufacturers to be correct. In knit goods the deadlock between underwear manufacturers and jobbers still continues -- jobbers waiting for lower prices while manufacturers make no attempt to sell their product. The situation in hosiery is but little better, while in underwear the only buying demand is for export. In District No. 1 (Boston) small wares are reported lower in price than a month ago, and there is a feeling among wholesalers that retailers might well sell cheaper and still make a good profit.

In other manufacturing lines there is more or less difference of condition. District No. 3 (Philadelphia) reports activity in broad silks, although the buying movement was not general and few silk mills continued open. In paper and twine, District No. 1 (Boston) finds that there is still difficulty among dealers in procuring sufficient supplies to meet the demand of the trade. Stocks are small. Prices continue from 100 to 400 per cent higher (wholesale) than in prewar times and are still tending upward. District No. 3 (Philadelphia) finds that production of paper for the first six months of 1920 exceeded that of the same period in 1919 by about 9 per cent. Prices have advanced in most grades of paper. Hope for a new source of supply of wood-pulp from Alaska is entertained in various quarters. The outlook is said to be encouraging in drugs and chemicals although the inactivity of the textile and tanning industries has reacted upon the trade. There is a plentiful supply of most raw materials for drug making, but American crude drugs are difficult to obtain. Sales are far in advance of this time last year. In rubber there is some anxiety. District No. 3 (Philadelphia) reports that there is "a decreasing demand for tires." No difficulty exists in getting raw materials. In District No. 8 (St. Louis) there is "overwhelming demand."

In lumber and building material the situation is also variable. In some Districts the expectation that heavy buying would develop in anticipation of higher freight rates has been disappointed. Stocks are small in numerous quarters. In District No. 6 (Atlanta) the lumber market is still dominated by the transportation situation. Curtailment of production is becoming more general, but apart from a continuous scarcity of cars the immediate outlook is satisfactory. In the middle west high costs of lumber, mill work and other materials have seriously retarded building. In District No. 10 (Kansas City) lumber and material markets have been inactive with lowered demand due to unsatisfactory distribution. In New England, District No. 1 (Boston) dwelling house construction is still backward, partly due to the increased cost of material and labor. On the Pacific Coast, District No. 12 (San Francisco) car shortage restricts lumbering operations and 20 per cent of the mills are closed, while those that are running are operating at only 75 per cent capacity. For the last four weeks in July reports from 122 mills operating on Douglas fir show production 31 per cent below normal, as compared with 7.5 per cent during the preceding four weeks. Unshipped orders amounted to 330,000-000 feet as compared with 343,000,000 feet. Building, however, is active. In District No. 9 (Minneapolis) lumber cut and shipped by producers increased about 50 per cent during the month. While average orders on hand by Southern pine producers decreased from 502,927,000 feet for July 9 to 389,850,000 feet for July 30, production during the same period shows an increase, the average figure for the week ending July 30 being 468,983,000 feet, which is about 75 per cent of normal.

The labor situation is reported generally favorable. In District No. 1 (Boston) employment in the textile industries is somewhat depressed and the same is true of the shoe factories. Returns from public employment offices show that the number of positions reported filled suffered a loss of 34 per cent from June of this year and 34 per cent from July of last year. There is also noted in spite of a current belief that there has been a decrease in the productivity of labor, an inquiry made by the Massachusetts Department of Labor based on returns from seven establishments shows a more productive situation in five for 1919 than for 1918. It does not appear that increased wages uniformly resulted in increased production per employee. In spite of curtailment of output and reduction in number of operations in certain industries, the report of the New York State Industrial Commission shows a decrease of only one half of 1 per cent between June and July in number of factory workers. District No. 7 (Chicago) reports the labor situation "distinctly better though there is some shortage." On the Pacific Coast "the supply of labor about equals demand throughout the District."

The volume of trade, both wholesale and retail, is reviewed as usual in the Board's special reports on that topic. Generally speaking, retail trade is fairly satisfactory. The Board's systematic report on wholesale trade conditions has not been extended throughout all Federal Reserve Districts. The data at hand, however, indicate an interesting and, on the whole, promising situation. Price reductions have evidently led to a revival of buying activity on the part of retailers in the South and West. Reports from wholesale dry goods firms in the Atlanta District show average increases in sales of 79.1 per cent in July as compared with June. Nevertheless, the sales of these same firms were still 26.6 per cent below the figures for July a year ago -- a vivid illustration of the extent to which buying activity had fallen off in preceding months. The Dallas District reports also indicate increased activity in wholesale dry goods, although sales are slightly below July, 1919. San Francisco District reports show increases of about one-third in value of sales over the preceding month for twelve wholesale dry goods houses, while the sales exceeded those for a year ago by nearly 32 per cent. Wholesale grocery firms reporting show only slight increases in sales during the month, in some instances recording decreases, while the same is true for hardware and shoe lines. In the San Francisco District, returns based on sales of 23 wholesale hardware concerns indicate average declines of 7.7 per cent as compared with June, while thirteen wholesale shoe establishments showed reductions of 10 per cent in volume of sales. Reports uniformly testify, however, to the fact that hardware sales have averaged much above those for July a year ago, while the limited data available for wholesale shoe houses shows that in this line the volume of sales is below that of last year. Downward tendencies in wholesale prices are noted for groceries, dry goods, and shoes, but no evidence of weakening is found in wholesale hardware or furniture lines. It is probably significant that so important a jobbing center as St.Louis reports good buying activity on the part of retailers to meet heavy current needs, although here as elsewhere there is an indisposition to make commitments for the future.

The situation in the retail trade has not changed in any essential way since last month. The volume of sales continues moderately large. In all Districts sales in terms of value are greater than those during the same month last year. In many Districts sales of essential commodities in terms of physical amounts are said to be fully as great and in some cases to exceed those during the same period last year. These results however have to a large extent been accomplished by means of reduction sales. The demand for luxuries and semi-luxuries has everywhere notably fallen off. Merchants are maintaining an attitude of caution in replenishing their stocks, apparently waiting for prices to reach a position of greater stability.

Financially the month has been quiet. Interest and discount rates have continued high with general scarcity of funds. The reserve position of the Reserve Banks has been well maintained. The Federal Reserve Bank of Boston reports that conditions are improving and that the expected stringency in the money market usual during the fall months will not be greater than last year. The bill market for bankers' acceptances in New York has continued active with supply more plentiful toward the end of the period and demand fairly well sustained. There is evidence that investors are taking up Liberty bonds and Victory notes for permanent absorption. Sales of new securities continue to fall off and financial operations are postponed whenever possible because of the difficulties arising out of high rates of interest. There is some slowing down of collections and this has been an unfavorable element in the financial position of some lines of business. On the whole it is believed in most Districts that more favorable financial conditions are in sight and that merchants and manufacturers, while drawing heavily upon the resources of the banks, are doing so primarily for productive purposes and not for speculative or non-productive objects. Liquidation has been carried still further in the stock market and prices have reached in New York levels lower than those of February or May. The news of the higher railroad rate decision caused only a temporary recovery. Call money rates have generally been moderate, ranging from 7 to 9 per cent practically throughout the period. Time money has been scarce and the charge for it has been high.

On the Pacific Coast member bank conditions are not far from stable. Interest and discount rates, however, have shown some tendency to harden during the past month. Some of the Southern banks show a considerable increase in their accommodations to member banks. An increased strain has been imposed upon the present situation as the result of active harvesting. From the grain districts (Minneapolis) it is reported that moderate liquidation of loans was made by customers during July, although an actual calculation of the extent of it is said to be difficult to make.

Money rates have remained firm with little change.

The collection situation has been the subject of a special inquiry during the past month and the results of it are presented elsewhere. In a general way, the situation is fairly favorable with collections slowing down in a number of instances due to desire on the part of people to conserve their funds in order to avoid borrowing at high rates from banks as well as to lack of funds in other cases, due to slow movement of commodities. Some increase in commercial failures is noted practically throughout the country, but there are many lines in which the change, if any, has been small.

FEDERAL RESERVE BOARD

WASHINGTON

September 4, 1920.
X-2006

Subject: Wording of Monthly Statements of General Business Conditions.

Dear Sir:

While it is doubtless unnecessary to caution you in the matter referred to below, the Board feels that neither it nor the Federal Reserve Agents in preparing reports of business conditions, distributed monthly by their respective banks, can be too careful in the selection of words and phrases. The Board feels that care should be taken to state the concrete facts only, from which the public can draw its own conclusions, and that anything of a forecast as to commodity prices in particular should be studiously avoided. The Board feels confident that you will agree with these views and that you will continue to exercise your accustomed caution, realizing at the same time that while it is necessary for the Federal Reserve Banks to be kept fully informed, it is not at all essential, and often unwise, to make public all the information received by the Federal Reserve Agents.

Very truly yours,

Governor.

To all Federal Reserve Agents.

FEDERAL RESERVE BOARD

WASHINGTON

September 7, 1920.
X-2007

SUBJECT: Election of Class "A" and "B" Directors.

Dear Sir:

The Federal Reserve Board has instructed me to advise you that it is desired that electoral groups of member banks for the election of Class A and B directors this year be selected on the same basis as prescribed by the Board in its letter of October 3, 1918, X-1240. The Board has designated Tuesday, November 16, 1920, as the date for opening the polls.

Very truly yours,

Secretary.

LETTER TO CHAIRMEN OF ALL BANKS.

X-2008

Release for AFTERNOON papers,
Thursday, September 16,1920.

Address by

Hon. Edmund Platt

Vice Governor, Federal Reserve Board

before the

West Virginia Bankers Association

Charleston, W.Va.

September 16, 1920.

ADDRESS WEST VIRGINIA BANKER'S ASSOCIATION X-2008

Gentlemen of the West Virginia Banker's Association, I am very glad of the opportunity you have afforded me to visit the city of Charleston, to learn something at first hand of your industries and your problems, and to speak a few words to you about the Federal Reserve System, the principles under which it is working and the principles which must guide it if it is to continue to serve the people adequately and safely. I have of course known something in a general way about the industries of this great state, and have had the pleasure of the acquaintance, and perhaps I may say the friendship, of the Representatives of West Virginia in the House of Representatives for a number of years. You will pardon me, I am sure, if I speak in a preliminary way of my service in Congress from which I so recently resigned. I came to Washington as a member of the 63rd Congress in 1913, the year of the passage of the Federal Reserve Act, and was assigned to the Banking and Currency Committee. Among the members of the committee at that time was the late Wm. G. Brown, representative of the 2nd West Virginia district, always an advocate of sound banking policies, one of the men upon whom Hon. Carter Glass, then Chairman, always relied. Mr. Sutherland, now one of your Senators, was also among the friends of my first year in Congress, and later I came to know other members of the delegation. Recently, during the year of my chairmanship of the Committee on Banking and Currency, one of the members of that committee upon whom I could always rely for support of sound policies was the Representative of your own city, Hon. Leonard S. Echols. Speaking of other members of the West Virginia delegation in Congress I might interject right here a description of the very delightful trip I took to the Hawaiian Islands in 1917 with George Bowers, who was Mr. Brown's successor in the 2nd district. Such a description would be much more interesting than any talk I can give you on banking. I might also say something about the splendid apples Bowers grows and about West Virginia's apples in general. I come from an apple growing country up on the Hudson river and the subject is mighty tempting, but wont do at this time.

West Virginia has done her part not only in the passage of the Federal Reserve Act but in its development by recent amendment, and I think the Reserve System has been of great advantage to the industries and to the banks of West Virginia. Governor Harding has assured me that I would find the members of the West Virginia Banker's Association a fine lot of men, strong supporters of the Federal Reserve System, and including very few if any knockers. I am sure he is right, from the kindly and hospitable reception you have given me and from what I have heard in your meetings. West Virginia with the exception of the Panhandle counties, belongs to the 5th or Richmond Federal Reserve District and is so divided that some of its banks look to the Reserve Bank at Richmond for their rediscounts and others to the branch at Baltimore. From these sources the banks of West Virginia on September 3rd had obtained loans of $1,599,213.75. . You are, I should judge not over extended and have been curtailing non-essential credits as much as you could so as to conserve credit for the encouragement of essential productive enterprise in farm, mine and factory. Few, if any, of your banks show excessive borrowings from the Reserve Bank, and if the Richmond Reserve Bank is having some trouble keeping credit within safe limits little of its trouble comes from West Virginia.

Without the Federal Reserve System, or some similar central banking system, I think we shall all agree, the war could not have been financed on a gold basis, and the System has very properly been described as a wonderful success. It has been ably administered, but we must not forget that the System is still on trial. It has never yet had a chance to function normally and has only within the past year begun to be a determining influence in the stabilization or regulation of credit. The war thrust upon it enormous business, of a kind not contemplated when the Act was passed - a business based not upon self-liquidating commercial paper but upon government bonds, and at rates abnormally low considering the demand. As the Board's last report says "In order that the member banks might carry the burden of undigested Government securities they were obliged to rediscount with the Federal Reserve Banks and in order that such rediscounting should not involve them in heavy loss it was essential that as long as the banks were lending to bond subscribers at coupon rates the rediscount rate should be related to the bond rates. The rediscount rates of the Federal Reserve Banks, therefore, instead of being higher than the market rates, as in theory and normal practice they should have been, were made lower than the market rates." This enforced departure from sound banking principles necessarily led to enormous expansion of credit - or inflation, if you prefer that term, and the problem has been ever since how to get away from it. Of course it is entirely contrary to the principles on which the Federal Reserve Act was founded to make loans on bonds, even if government bonds, at lower rates than on commercial paper, yet in some districts we are still doing it. And indirectly we are issuing currency based upon these bonds, though that was one of the very things the Federal

Reserve Act was expected to put a stop to. As much as was said in Congress and out, while the Federal Reserve Bills were under discussion, about providing an elastic currency which would expand and contract in accordance with the demands of business as about any other feature of the bill, and the currency contemplated in the Act was to be issued only upon the rediscounting of short-time paper growing out of actual business transactions, paper that was expected to be self-liquidating when the transactions were completed by the sale of goods. The whole scheme was upset by the flood of government securities, and furthermore Central Banking principles and practice being unfamiliar to most of our business men and bankers, a great many people got the idea that Federal Reserve Bank rates should be permanently lower than market rates, so as to make rediscounting attractive and profitable to the member banks and so as to make the borrowing of money for any and all purposes easier, and many also got the idea that Liberty bonds should be carried indefinitely at the coupon rates. It is not necessary for me to say to an audience of bankers that if the Federal Reserve System should be conducted in accordance with such ideas the final result would be a crash such as we have never had before in the history of the country. The System contains the possibilities of enormous expansion of credit, as the war financing has demonstrated. It remains to be seen whether it can be brought back to sound normal conditions gradually and without producing any serious hardship.

We are now almost at the peak of the demand for credit and currency caused by the movement of crops, and it is easy to see that the situation might have been serious had there not been a general increase of Reserve Bank rates beginning about a year ago. There was some grumbling over the increase of rates on "war paper", but it had to be made and in due time should go further, in my opinion, so that there should be at least no preference shown to bond secured paper. The great issues of Liberty bonds are gradually being digested, going into the hands of investors who intend to hold them, and there has been a gradual reduction of loans on "war paper". Apparently about $16,000,000,000 of Liberty bonds and Victory notes have been actually paid for and are out of the banks - a really stupendous achievement, which we would not have thought possible a few years ago. The Comptroller brought this fact out in an address before the Maine Banker's Association in June. According to his figures there remained less than two billions of these securities in the National Banks, counting bonds on which the banks were making loans and bonds owned by the banks, and he estimated about an equal amount in the State banks and Trust Companies. Splendid as the showing of saving and absorption of Liberty bonds has been, however, it must be realized that the four billions left in the banks, together with the Treasury certificates, still cause a very serious displacement of credit, which can only be made good by continued steady saving and investment on the part of the people. The high record of bills discounted based on government obligations by the 800 reporting member banks was made in June, 1919, $1,438,000,000 and the high mark for the present year was made on January 2nd when these banks had loaned $1,289,000,000. The low mark was August 20th when these loans to individual borrowers on government paper had declined to $959,000,000, a decrease for this year of $330,000,000. If all banks were included I suppose the decrease would probably be twice that figure, or about $600,000,000, showing what seems to me very gratifying progress in the payment for bonds. Some part of the decline must be due to the reduction of the outstanding treasury certificates, but certificates were largely held by the banks themselves until their interest rates were raised, and I suppose have not entered very largely into collateral for loans to individual borrowers from the banks. Federal Reserve rediscounts, based on war paper reached their high mark on May 16, 1919, at $1,863,476,000 during the Victory Loan Campaign. On June 18th June 18,1920, these war paper rediscounts had been reduced to $1,231,841,000 or $631,000,000, less. Since June 18th there has been some natural increase due doubtless to the increased demand for credit as the harvest progressed and the crop moving season advanced. The remarkable thing is that the reduction in war loans has been very much more than made up in increased loans on commercial paper. A year ago Sept. 5th, the Reserve Bank rediscounts on commercial paper were only $212,185,000, about one eighth of the loans on war paper, which then stood at $1,635,233,000. On September 3rd, 1920, the commercial paper rediscounts had advanced to $1,412,035,000, or nearly seven times as large as last year at this time, and more than $79,000,000 greater than the rediscounts on war paper, though the latter had increased more than $100,000,000 from the low mark of $1,231,841,000 of June 18th to $1,332,892,000. Commercial paper rediscounts passed the war paper bills in the Reserve Banks for the first time on July 30th when they reached $1,250,613,000 against $1,241,017,000 war paper bills. They seesawed afterwards for a few weeks but the commercial bills seem now to have taken the lead permanently. It should be added that the recent increase of a hundred million in war paper loans is probably also to be considered chiefly commercial -- bonds merely being used as convenient collateral.

On the whole the policies of the Federal Reserve Board and of the Federal Reserve Banks seem to be working well. In the face of an enormous and unprecedented demand for commercial credit the reserves have held pretty steady with only slight declines week by week. There appears to be credit enough for all legitimate demands without encroaching on the legal reserves, but no surplus for speculation, or for profiteering, or for holding any unusual amount of harvested crops from the market. Though the percentage of decrease of reserves each week has been in tenths there has been a steady decrease each week since July 23rd. It should be remembered that the Reserve Banks of the crop moving sections are being sustained today chiefly by help from the Boston and Cleveland Reserve Banks. New York has helped until recently, and Philadelphia and San Francisco still are helping some through purchases of acceptances from the West and South. The Boston Reserve Bank is charging its own member banks 7 per cent for rediscounts of commercial paper and is loaning its surplus to Western and Southern Reserve Banks, which make most of their rediscounts to member banks at 6 per cent. That doesn't seem quite right. In accordance with strict business principles, or with economic principles, if you like that term, the rates ought to be highest where the demand is greatest. Boston's surplus of credit comes partly from dull business, textile plants closed down, etc. and there is naturally some grumbling at its high rediscount rate maintained at present largely for the benefit of the rest of the country. It should not be forgotton that the regional reserve system is not exactly the same as a Central

Reserve bank with branches. When considering the present situation, furthermore, it is well to bear in mind that as a result of the high (7 per cent) Reserve Bank rate in New York and of curtailment of loans for speculation the stock market is absorbing a billion dollars less credit than last fall, and that billion dollars is now in use financing the movement of crops, and financing production generally. Securities, including Liberty bonds, are at a very low point - the only things in the country that are really cheap, judged by prewar standards.

FALLING PRICES

As I have said some of the surplus of credit in Boston which is now helping Federal Reserve Banks in the West and South results from dull business in manufacturing lines, and the same is true of Cleveland and Philadelphia, and to some degree also of other districts where there is much manufacturing. There is evidence that we have entered upon a period of readjustment of values. The people have rebelled against the ever mounting prices and have so diminished demand for many articles, particularly clothing and shoes, that some factories have been compelled to close or run on part time for lack of orders for the time being. This has been charged as due to restriction of credit, but I think there is evidence that the movement is deeper and more wide-spread. There has been a decrease of prices all over the world to some extent. It began, I think, with the collapse of the silk market in Japan in the winter and early spring.

The big drop in raw silk was naturally followed by a drop in wool and in leather, and the movement spread from one thing to another. Cotton, though a somewhat shorter crop than usual, naturally came in line for a drop following wool and we hear cries from the rubber and automobile industries and from some others. Sugar and coffee have gone down, and the pressure on the breakfast table has perceptibly relaxed. All this I believe is in accordance with economic laws. How far the price recessions will go remains to be seen. A lower range of prices will ease up the credit situation considerably, but will at the same time perhaps increase grumbling and criticism. We have all complained of high prices and of the high cost of living and have charged inflation, profiteering, etc., but we all like to see somebody else's prices go down. When the prices of things we ourselves sell or produce also go down - why that's all wrong. We can't sell them below the cost of production, don't you know! People like to find a "goat" somewhere to blame when things go against them, and some of them, perhaps naturally enough, turn their criticisms against the Federal Reserve Board or the Federal Reserve Banks. The war taught people to look to the Government for everything and now-a-days when a man can't "hock" his last winter's overcoat for as much as he thinks it ought to bring he writes to the Federal Reserve Board and says it is outrageous that money is so tight.

CRITICISMS OF THE FEDERAL RESERVE BOARD

There are several classes of critics of the Federal Reserve Board, some of whom know something about banking and about economic laws and some of whom do not. Perhaps they may be divided roughly into three classes. One class wants lower rates - cheap money - regardless of economic laws, or the reserve requirements of the Federal Reserve Act; another class declares that rates were not advanced quickly enough after the war financing was finished, and are not yet high enough to control credit fully; a third class just criticises on general principles, perhaps mostly for political effect.

This third class is not troubled by any particular regard for consistency or for laws of any kind. The same persons have declared that enormous inflation has been promoted by the Board and has been the cause of high prices - pointing to the great volume of outstanding Federal Reserve notes - and then when prices began to fall they declared that the Board was stifling business by refusing credit for production and causing deflation. The chief stock in trade, however, of the third class of critics is the charge of "profiteering". They point to the fact that the net earnings of the Federal Reserve Banks, the excess of earnings over current expenses, for the half year ended June 30th totaled $68,583,111 or at the yearly rate of 151.2 per cent on an average paid-in capital of $91,165,000, and that they made 92 per cent in the corresponding period last year. Well, if you can "profiteer" by having your rates or your prices <u>too low</u>, and when practically all your profits go to the Government as a franchise tax, there may be something in the charge. The Reserve Banks before the war were not making their dividends, as a rule, and one member bank up in my old Congressional District charged off its reserve bank stock to profit and loss, and said it was no good as an investment. Profits were forced on the Reserve Banks by the war, and have been made at rates lower than good banking practice would have dictated - rates which attracted business instead of stablizing credit.

It is proper in this connection that I should call attention to the very extraordinary nature of the Federal Reserve Banks considered as corporations. The stockholders are the member banks, but those member banks not only subscribed the capital, on which the Reserve Banks began operations, but furnish all the deposits from which loans are made. Suppose the stockholders of one of your banks were the only depositors, how would you reckon the profits of the institution? The Richmond Reserve Bank during the first half of the fiscal year made a profit of $2,610,000 or 113.6 per cent based on its paid-in capital alone - which averaged $4,622,000 during the six months ending June 30th. Based on capital and surplus, $12,689,000, it's current net earnings were at the rate of 41.4 per cent. Based on its capital and reserve balances - and these reserve balances were all furnished by the stockholders - the earnings were at the rate of only 8.1 per cent, or based on combined paid-in capital, surplus and reserve balances the rate was 7.2 per cent.- not such a very impressive figure, but higher than the average rate for the whole 12 Reserve Banks, which was 6.4 per cent. On either of the last two bases of reckoning the highest percentages were made by the Philadelphia and Atlanta Reserve Banks.

You will perhaps say that if the Richmond Reserve Bank makes 8.1 per cent on its capital and reserve balances - which you furnish -

you ought to have a larger return than 6 per cent on the capital, but this brings up a question which I shall not discuss today. I introduced a bill in the last session of Congress that would have allowed extra dividends of not to exceed three per cent from Reserve Banks that had accumulated the full 100 per cent reserve, but I should add that my position as a member of Congress on such measures must not be understood as necessarily indicating my position as a member of the Federal Reserve Board. You remember that Salmon P. Chase as Secretary of the Treasury issued greenbacks which later as Chief Justice of the Supreme Court he declared unconstitutional. It is very important that there should be no motive for running the Reserve Banks for the purpose of making a profit. An extra dividend bill if passed should be carefully safeguarded. Lower rates than these at present prevailing would probably bring larger profits by attracting more business, but the Reserve Banks have the custody of your reserves - of the reserves of the banks of the country, and those reserves must be conserved if the System is to be managed with safety. There must be no inducement for the expansion of credit merely for the sake of profit.

The first class of critics of the Federal Reserve Board mentioned above deserve some attention as well as the last class - the class that wants cheap money, regardless of laws, economic or statutory. A very well known United States Senator has recently contributed an article to an industrial journal, published in Baltimore, in which he urges that the Reserve Bank rates should be lowered to where they were before the war, or at least during the war. In one part of the article he says that the policy of the Board has had the effect of "breaking down the price of securities" - which is tantamount to saying that speculation in Wall Street has been checked - in another place he says that "there is no sense whatever in retiring credits which are employed in production". Well, obviously if you should open the flood gates of credit for speculation the price of securities would advance, but such an advance at this time would absorb credit needed in moving the crops and in productive enterprises. The policy of the Board has been throughout to conserve credit for production and orderly marketing. Reserve Bank rates must be fixed with the purpose of maintaining safe reserves - the reserves required by law - otherwise we should have such inflation and speculation as could end only in disaster. The Senator urges Chambers of Commerce throughout the country to pass resolutions in favor of lower rates. Chambers of Commerce are composed of business men and bankers and it will be interesting to see what response they make. They are not as a rule inflationists and I shall be surprised if they do not recognize the necessity of the application of sound principles - of maintaining sound conditions of credit. They know that the banks have been meeting all demands for credit for sound productive enterprise, and have been curtailing credit only for speculation or for nonessentials. They know that with reserves lower than they should be, and with loans outstanding far greater than ever before in the history of the country there has been no "retirement of credits which are employed in production", where conditions were sound.

Personally, I can't help having some doubt whether all has been done that could be done to curtail speculative and other unnecessary credits. The enormous expansion of all bank loans since the end of the war and the fact, already stated, that Federal Reserve Bank loans on commercial paper have increased nearly seven fold in a year, or about $1,300,000,000, makes it hard to believe that all that additional credit can possibly be used in useful productive enterprise. Certainly there is no evidence of restriction, in these figures, but strong evidence to the contrary.

The total loans of the Federal Reserve Banks are at their highest now - higher than at any time during the war, the highest in the history of the System. All previous records of "total bills on hand" were passed in the statement of August 27th, and again on September 3rd, and on September 10th. They passed three billion dollars for the first time on the 3rd. The figures are so high, in fact, that they seem to constitute strong prima facie evidence of undue expansion.

This brings me to some consideration of the criticisms of the second class of critics mentioned above, critics who include some of the leading students of economics and a few of the leading bankers of the country. They maintain that the rates of the Reserve Banks were not advanced soon enough after the war, and some of them maintain that they are not yet high enough in all districts to give the necessary check to dangerouse expansion. I am personally of the opinion that these criticisms are useful. The hindsight of these college professors and bankers is often better than their foresight, and like the rest of us they frequently find it easier to point out mistakes long after they occur than at the time. Their criticisms often fail also to take into consideration practical difficulties, but on the whole, as an abstract proposition, I agree with them that conditions would probably be better today, if the check to expansion had been started by a somewhat earlier increase of rates after the war. I agree with them also that Reserve Bank rates should be higher than they are today in some of the districts where the demand for credit is greatest and where legal rates of interest are 7, 8, and even 10 per cent, as in the 6th Federal Reserve District, and in several others. Practical difficulties, however, have to be considered. Some people, and some banks, got themselves pretty badly overloaded with Liberty bonds through patriotic motives, and must be given more time to work out. The habits engendered during the war can't be thrown off at once, and people must be given time to understand what the purposes of the Federal Reserve System are and what the principles are which must guide it. If we can succeed in keeping the reserves of the System within safe limits without again raising rates, it may be better to do so.

One thing I want to say as a new member of the Federal Reserve Board, though I am sure it is not necessary to say it to this audience. There is absolutely no politics in the administration of the affairs of the Board. I was in close touch with the Board for considerably more than a year as Chairman of the Committee on Banking and Currency of the House of Representatives and in frequent consultation with Governor Harding with regard to proposed amendments to the Federal Reserve Act. You don't need to be told that I am a Republican and that I should have scented partisanship long ago if there had been any. If the time ever comes when the Federal Reserve Board yields to partisan pressure and fixes its policies with relation to their influence on elections, rather than the security and soundness of the banking system of the country - then there will be danger ahead. I do not believe such a time ever will come. I do not believe the policies of the System today would be appreciably different if Mr. Hughes had been elected President four years ago instead of Mr. Wilson.

The Federal Reserve Act may not be 100 per cent perfect, but it works well and needs only such minor amendments as suggest themselves from its administration from time to time. No changes will be made in its main features for many years, if ever, in my opinion, unless Socialists or some other radical or destructive party should gain control of the country - which I don't expect will happen in my time or in yours.

9/10/20

X-2008a

Release for AFTERNOON papers,
Thursday, September 16, 1920.

Summary of

Address by

Hon. Edmund Platt,

Vice Governor, Federal Reserve Board

before the

West Virginia Bankers Association

Charleston, W. Va.

September 16, 1920.

Addressing the West Virginia Bankers Association today, Hon. Edmund Platt, Vice Governor of the Federal Reserve Board, took occasion to answer some of the criticisms that have recently been made of the administration of the Federal Reserve System. Although but recently appointed a member of the Board, Mr. Platt has for years been in close touch with its work. He was elected to Congress from New York in 1913 (the year of the passage of the Federal Reserve Act) and was assigned to the Banking and Currency Committee which gave such exhaustive consideration to the large number of bills from which the Federal Reserve Act was evolved. When the Republicans attained a majority of the House he was chosen Chairman of the Committee and served as such up to the date of his appointment to the Board. As he is the only Republican member of the Board, his remarks are of peculiar interest at this juncture. He said:

"On the whole, the policies of the Federal Reserve Board and of the Federal Reserve Banks seem to be working well. In the face of an enormous and unprecedented demand for commercial credit the reserves have held pretty steady with only slight declines week by week. There appears to be credit enough for all legitimate demands without encroaching on the legal reserves, but no surplus for speculation, or for profiteering, or for holding any unusual amount of harvested crops from the market. Though the percentage of decrease of reserves each week has been in tenths there has been a steady decrease each week since July 23rd. It should be remembered that the Reserve Banks of the crop moving sections are being sustained today chiefly by help from the Boston and Cleveland Reserve Banks. New York has helped until recently, and Philadelphia and San Francisco still are helping some through purchases of acceptances from the West and South. The Boston Reserve Bank is charging its own member banks 7 per cent for rediscounts of commercial paper and is loaning its surplus to Western and Southern Reserve Banks, which make most of their rediscounts to member banks at 6 per cent. That doesn't seem quite right. In accordance with strict business principles, or with economic principles, if you like that term, the rates ought to be highest where the demand is greatest. Boston's surplus of credit comes partly from dull business, textile plants closed down, etc. and there is naturally some grumbling at its high rediscount rate maintained at present largely for the benefit of the rest of the country. It should not be forgotten that the regional reserve system is not exactly the same as a Central Reserve Bank with branches. When considering the present situation, furthermore, it is well to bear in mind that as a result of the high (7 per cent) Reserve Bank rate in New York and of curtailment of loans for speculation the stock market is absorbing a billion dollars less credit than last fall, and that billion dollars is now in use financing the movement of crops, and financing production generally. Securities, including Liberty bonds, are at a very low point - the only things in the country that are really cheap, judged by pre-war standards.

As I have said, some of the surplus of credit in Boston which is now helping Federal Reserve Banks in the West and South results from dull business in manufacturing lines, and the same is true of Cleveland and Philadelphia, and to some degree also of other districts where there is much manufacturing. There is evidence that we have entered upon a period of readjustment of values. The people have rebelled against the ever mounting prices and have so diminished demand for many articles, particularly clothing and shoes, that some factories have been compelled to close or run on part time for lack of orders for the time being. This has been charged as due to restriction of credit, but I think there is evidence that the movement is deeper and more wide-spread. There has been a decrease of prices all over the world to some extent. It began, I think, with the collapse of the silk market in Japan in the winter and early spring. The big drop in raw silk was naturally followed by a drop in wool and in leather, and the movement spread from one thing to another. How far the price recessions will go remains to be seen. A lower range of prices will ease up the credit situation considerably, but will at the same time perhaps increase grumbling and criticism. We have all complained of high prices and of the high cost of living and have charged inflation, profiteering, etc., but we all like to see somebody else's prices go down. When the prices of things we ourselves sell or produce also go down - why, that's all wrong! 'We can't sell them below the cost of production, don't you know.' People like to find a "goat" somewhere to blame when things go against them, and some of them, perhaps naturally enough turn their criticisms against the Federal Reserve Board or the Federal Reserve Banks. The war taught people to look to the Government for everything and now-a-days when a man can't "hock" his last winter's overcoat for as much as he thinks it ought to bring he writes to the F. R. Board and says it is outrageous that money is so tight.

Without the Federal Reserve System, or some similar central banking system, I think we shall all agree, the war could not have been financed on a gold basis, and the system has very properly been described as a wonderful success. It has been ably administered, but we must not forget that the system is still on trial. It has never yet had a chance to function normally and has only within the past year begun to be a determining influence in the stabilization or regulation of credit. The war thrust upon it enormous business, of a kind not contemplated when the Act was passed - a business based not upon self-liquidating commercial paper but upon government bonds, and at rates abnormally low considering the demand. As the Board's last report says "In order that the member banks might carry the burden of undigested Government securities they were obliged to rediscount with the Federal Reserve Banks and in order that such rediscounting should not involve them in heavy loss it was essential that as long as the banks were lending to bond subscribers at coupon rates the rediscount rate should be related to the bond rates. The rediscount rates of the Federal Reserve Banks, therefore, instead of being higher than the market rates, as in theory and normal practice they should have been, were made lower than the market rates." This enforced departure from sound banking principles necessarily led to enormous expansion of credit - or inflation, if you prefer that term, and the problem has been ever since how to get away from it. Of course it is entirely contrary to the principles on which the Federal Reserve Act was founded to make loans on bonds, even if government bonds, at lower rates than on commercial paper, yet in some districts we are still doing it. And indirectly we are issuing currency based upon those bonds, though that was one of the very things the Federal Reserve Act was expected to put a stop to. The currency contemplated in the Act was to be issued only upon the rediscounting of short-time paper growing out of actual business transactions, paper that was expected to be self-liquidating when the transactions were completed by the sale of goods. The whole scheme was upset by the flood of government securities, and furthermore central banking principles and practice being unfamiliar to most of our business men and bankers, a great many people got the idea that Federal Reserve Bank rates should be permanently lower than market rates, so as to make rediscounting attractive and profitable to the member banks and so as to make the borrowing of money for any and all purposes easier, and many also got the idea that Liberty bonds should be carried indefinitely at the coupon rates. It is not necessary for me to say to an audience of bankers that if the Federal Reserve System should be conducted in accordance with such ideas the final result would be a crash such as we have never had before in the history of the country.

We are now almost at the peak of the demand for credit and currency caused by the movement of crops, and it is easy to see that the situation might have been serious had there not been a general increase of Reserve Bank rates beginning about a year ago. There was some grumbling over the increase of rates on "war paper", but it had to be made and in due time should go further, in my opinion, so that there should be at least no preference shown to bond secured paper. The great issues of Liberty bonds are gradually being digested, going into the hands of investors who intend to hold them, and there has been a gradual reduction of loans on "war paper". Apparently about $16,000,000,000 of Liberty bonds and Victory notes have been actually paid for and are out of the banks - a really stupendous achievement, whichwe would not have thought possible a few years ago. The Comptroller of the Currency brought out this fact in an address before the Maine Banker's Association in June. According to his figures, there remained less than two billions of these securities in the National Banks, counting bonds on which the banks were making loans and bonds owned by the banks, and he estimated about an equal amount in the State Banks and Trust Companies. Splendid as the showing of saving and absorption of Liberty bonds has been, however, it must be realized that the four billions left in the banks, together with the Treasury certificates, still cause a very serious displacement of credit, which can only be made good by continued steady saving and investment on the part of the people. The high record of bills discounted based on government obligations by the 800 reporting member banks was made in June, 1919, $1,438,000,000 and the high mark for the present year was made on January 2nd when these banks had loaned $1,289,000,000. The low mark was August 20th, when these loans to individual borrowers on government paper had declined to $959,000,000, a decrease for this year of $330,000,000. If all banks were included I suppose the decrease would probably be twice that figure, or about $600,000,000, showing what seems to me very gratifying progress in the payment for bonds. Some part of the decline must be due to the reduction of the outstanding Treasury certificates, but certificates were largely held by the banks themselves until their interest rates were raised, and I suppose have not entered very largely into collateral for loans to individual borrowers from the banks. Federal Reserve rediscounts, based on war paper reached their high mark on May 16, 1919, at $1,863,476,000 during the Victory Loan Campaign. On June 18th these war paper rediscounts had been reduced to $1,231,841,000 or $631,000,000 less. The remarkable thing is that the reduction in war loans has been very much more than made up in increased loans on commercial paper. A year ago, on September 5, the Reserve Bank rediscounts on commercial paper were only $212,185,000, about one-eighth of the loans on war paper, which then stood at $1,635,233,000. On September 3rd the commercial paper rediscounts had advanced to $1,412,035,000, or nearly seven times as large as last year at this time, and more than $79,000,000 greater than the rediscounts on war paper, though the latter had increased more than $100,000,000 from the low mark of $1,231,841,000 of June 18th to $1,332,892,000. Commercial paper rediscounts passed the war paper bills in the Reserve Banks for the first time on July 30th when they reached $1,250,613,000 against $1,241,017,000 war paper bills. They seesawed afterwards for a few weeks but the commercial bills seem now to have taken the lead permanently. It should be added that the recent increase of a hundred million in war paper loans is probably also to be considered chiefly commercial - bonds merely being used as convenient collateral.

Mr. Platt divided the present critics of the Board into classes, as follows:

(a) Those desiring lower rates - cheap money - regardless of economic laws or the reserve requirements of the Federal Reserve Act;

(b) Those declaring that the discount rates of Federal Reserve Banks were not advanced quickly enough after the war financing was finished and are not yet high enough fully to control credit;

(c) Those who just criticize on general principles - perhaps mostly for political effect.

Dealing particularly with the last mentioned class, he said:

"This third class is not troubled by any particular regard for consistency or for laws of any kind. The same persons have declared that enormous <u>inflation</u> has been promoted by the Board and has been the cause of high prices - pointing to the great volume of outstanding Federal Reserve notes - and then when prices began to fall they declared that the Board was stifling business, refusing credit for production and causing <u>deflation</u>. The chief stock in trade, however, of the third class of critics is the charge of "profiteering." They point to the fact that the net earnings of the 12 Federal Reserve Banks, the excess of earnings over current expenses, for the half year ended June 30th totaled $68,583,111 or at the yearly rate of 151.2 per cent on an average paid-in capital of $91,165,000, and that they made 92 per cent in the corresponding period last year. Well, if you can "profiteer" by having your rates or your prices <u>too low</u>, and when practically all your profits go to the government as a franchise tax, there may be something in the charge. The Reserve Banks before the war were not making their dividends, as a rule, and one member bank up in my old Congressional District charged off its Reserve Bank stock to profit and loss, and said it was no good as an investment. Profits were <u>forced on the Reserve Banks</u> by the war, and have been made at rates lower than good banking practice would have dictated - rates which attracted business instead of stabilizing credit."

In this connection, Mr. Platt called attention to the extraordinary nature of Federal Reserve Banks as corporations, their entire capital, surplus and reserve funds being contributed solely by their stockholders - the member banks. Taking for example the Federal Reserve Bank of Richmond, he showed that while the bank made the first half of the year a profit of 113.6 per cent on its paid-in capital, that profit was but 7.2 per cent on combined capital, surplus and reserve balances. He stated that this matter of profits raised a question that he did not care to discuss today.

He said, however:

"I introduced a bill in the last session of Congress that would have allowed extra dividends of not to exceed three per cent from reserve banks that had accumulated the full 100 per cent reserve, but I should add that my position as a member of Congress on such measures must not be understood as necessarily indicating my position as a member of the Federal Reserve Board. You remember that Salmon P. Chase, as Secretary of the Treasury, issued greenbacks which later, as Chief Justice of the Supreme Court, he declared unconstitutional. It is very important that there should be no motive for running the Reserve Banks for the purpose of making a profit. An extra dividend bill, if passed, should be carefully safeguarded. Lower rates than those at present prevailing would probably bring larger profits by attracting more business, but the Reserve Banks have the custody of your reserves - of the reserves of the banks of the country, and those reserves must be conserved if the System is to be managed with safety. There must be no inducement for the expansion of credit merely for the sake of profit."

As to the critics classified as those desiring cheap money, Mr. Platt said:

"A very well known United States Senator has recently contributed an article to an industrial journal, published in Baltimore, in which he urged that the Reserve Bank rates should be lowered to where they were before the war, or at least during the war. In one part of the article he says that the policy of the Board has had the effect of "breaking down the price of securities" - which is tantamount to saying that speculation in Wall Street has been checked - in another place he says that "there is no sense whatever in retiring credits which are employed in production."

Well, obviously if you should open the flood gates of credit for speculation the price of securities would advance, but such an advance at this time would absorb credit needed in moving the crops and in productive enterprises. The policy of the Board has been throughout to conserve credit for production and orderly marketing. Reserve Bank rates must be fixed with the purpose of maintaining safe reserves - the reserves required by law - otherwise we should have such inflation and speculation as could only end in disaster. The Senator urges Chambers of Commerce throughout the country to pass resolutions in favor of lower rates. Chambers of Commerce are composed of business men and bankers who are not as a rule inflationists and I shall be surprised if they do not recognize the necessity of the application of sound principles - of maintaining sound conditions of credit. They know that the banks have been meeting all demands for credit for sound productive enterprise, and have been curtailing credit only for speculation or for non-essentials. They know that with reserves lower than they should be, and with loans outstanding far greater than ever before in the history of the country there has been no "retirement of credits which are employed in production," where the conditions were sound.

Personally I can't help having some doubt whether all has been done that could be done to curtail speculative and other unnecessary credits. The enormous expansion of all bank loans since the end of the war and the fact, already stated, that Federal Reserve Bank loans on commercial paper have increased nearly seven fold in a year, or about $1,300,000,000, makes it hard to believe that all that additional credit can possibly be used in useful productive enterprise. Certainly there is no evidence of restriction, in these figures, but strong evidence to the contrary.

The total loans of the Federal Reserve Banks are at their highest now - higher than at any time during the war, the highest in the history of the System. All previous records of "total bills on hand" were passed in the statement of August 27th, and again on September 3rd, and on September 10th. They passed three billion dollars for the first time on the 3rd. The figures are so high, in fact, that they seem to constitute strong prima facie evidence of undue expansion.

This brings me to some consideration of the criticisms of the second class of critics mentioned above, critics who include some of the leading students of economics and a few of the leading bankers of the country. They maintain that the rates of the Reserve Banks were not advanced soon enough after the war, and some of them maintain that they are not yet high enough in all districts to give the necessary check to dangerous expansion. I am personally of the opinion that these criticisms are useful. The hindsight of these college professors and bankers is often better than their foresight, and like the rest of us they frequently find it easier to point out mistakes long after they occur than at the time. Their criticisms often fail also to take into consideration practical difficulties, but I agree with them that conditions would probably be better today, if the check to expansion had been started by a somewhat earlier increase of rates after the war. I agree with them also that Reserve Bank rates should be higher than they are today in some of the districts where the demand for credit is greatest and where legal rates of interest are 7, 8 and even 10 per cent, as in the sixth Federal Reserve District and in several others. Practical difficulties, however, have to be considered. Some people, and some banks, got themselves pretty badly overloaded with Liberty bonds through patriotic motives, and must be given more time to work out. The habits engendered during the war can't be thrown off at once, and people must be given time to under stand what the purposes of the Federal Reserve System are and what the principles are which must guide it. If we can succeed in keeping the reserves of the System within safe limits without again raising rates, it may be better to do so.

Concluding his address, Mr. Platt stated emphatically:

"There is absolutely no politics in the administration of the affairs of the Board. If the time ever comes when the Board yields to partisan pressure and fixes its policies with relation to their influence on elections, rather than the security and soundness of the banking system of the country - then there will be danger ahead. I do not believe such a time ever will come. I do not believe the policies of the System today would be appreciably different if Mr. Hughes had been elected President four years ago instead of Mr. Wilson.

The Federal Reserve Act may not be 100 per cent perfect, but it works well and needs only such minor amendments as suggest themselves from its administration from time to time. No changes will be made in its main features for many years, if ever, in my opinion, unless Socialists or some other radical or destructive party should gain control of the country."

Release for MORNING PAPERS,
Friday, September 17, 1920. X-2009

"THE FUNCTIONS AND POLICIES OF THE FEDERAL RESERVE SYSTEM"

Address by

W. P. G. HARDING

GOVERNOR, FEDERAL RESERVE BOARD

before the

CHAMBER OF COMMERCE

of

CLEVELAND, OHIO.

September 16, 1920.

"THE FUNCTIONS AND POLICIES OF THE FEDERAL RESERVE SYSTEM"

The Federal Reserve System is now passing through a crucial stage of its existence. Despite the publicity which has always been given to its operations from the beginning and the efforts that have been made to explain the principles and objects of the Federal Reserve Act, there is still a wide-spread misunderstanding of the functions, policies, powers, and limitations of the Federal Reserve Banks and of the Federal Reserve Board.

The fundamental objects in establishing the Federal Reserve Banks, as defined in the short title of the Act, were "to furnish an elastic currency, to afford means of rediscounting commercial paper, and to establish a more effective supervision of banking in the United States".

The experience of the past four years has demonstrated the expansive power of the Federal Reserve System, but an elastic system of Federal Reserve Bank credit and note issue implies capacity to control and power to curtail as well as to expand. The ability of the System to check undue expansion and to induce normal and healthy liquidation is still on trial.

The enactment of the Federal Reserve law and of its various amendments and the operation of the Federal Reserve Banks have brought about changes in our banking structure hardly less marked than the economic changes that have been caused by the world war. Cash in vault and balances with banks other than the Federal Reserve Banks no longer count as lawful reserve for the member banks of the Federal Reserve System: - their entire reserve must now be carried with the Federal Reserve Banks. The lending power of the member banks has been greatly increased because of the substantial reduction, in more than 50 per cent, in the reserve they are required to carry and because of the phenomenal growth in their deposits, without taking into account the greatly extended rediscount facilities afforded them by the Federal Reserve Banks and the power given them in the Federal Reserve Act to lend their credit by accepting drafts drawn upon them in domestic transactions involving the shipment of goods and in transactions growing out of importations and exportations. No one has denied that our old banking system, with the rigidity of its currency and with the limitations upon its rediscount facilities, would have collapsed under the strain which would have been imposed upon it by war conditions. Even had there been no war, the old system would have been unable to respond to the business requirements of the present day.

The Federal Reserve Banks, as the custodians of the ultimate banking reserves of the country, as the mainstay of the acceptance market, as the agencies of last resort in the matter of rediscounts, and as the media through which so large and important a part of the currency is issued, must always be kept in an absolutely sound and strong position. Their strength must be measured by the liquidity and intrinsic value of their invested assets, which include rediscounts for member banks, as well as by the proportion of gold and lawful money to their liabilities. A gold reserve is essential to a sound financial system. This percentage of reserve ought normally to be considerably higher than the minimum required by law, in order to provide ample margin for meeting unusually large seasonal requirements and unexpected emergencies, but even though the reserve should fall temporarily below legal requirements, there would be no occasion for uneasiness provided the assets of the banks are of the self-liquidating character which would admit of the restoration of the reserve within a reasonable time. It would be folly to inflict serious injury upon agriculture, commerce, and industry merely for the sake of maintaining an arbitrary minimum reserve, but it would be still more consummate folly to treat a low reserve position, brought about by an emergency, as a normal base from which future emergencies are to be met.

The average reserve now required of all national banks is about 8 per cent of their net deposits. As this reserve must be carried with the Federal Reserve Bank, it will amount to 8 per cent in terms of gold and lawful money, only when the reserve of the Federal Reserve Bank is 100 per cent of its liabilities, and it is reduced <u>pari passu</u> as the reserve of the Federal Reserve Bank declines. There are some who believe that the minimum reserve required by law may be lightly infringed upon, for they say "what is a reserve for, if it is not to use". Some who hold these views are fond of referring to the case of a hospital where all the beds are occupied except a few which are held in reserve. The ambulance brings in a badly injured man, who is denied admission upon the ground that all the beds are full. The ambulance surgeon points to two or three unoccupied beds and is met with the response, "Those are reserve beds and can not be used". Certainly any hospital under sane management would use those beds in case of real emergency, but would not permit their use by strangers of sound and healthy appearance who might have been unable to obtain hotel accommodations, or by husky hoboes who find park benches too hard for comfort, nor would a hospital with its capacity taxed to the limit encourage convalescent patients to remain a day longer than necessary.

The law fixes the minimum reserve to be carried by Federal Reserve Banks against their note issues at 40 per cent, and against their member banks'deposits at 35 per cent. It permits temporary suspension by the Federal Reserve Board of these minimum reserves under certain graduated penalties, but in order to illustrate the danger of regarding the legal minimum as the normal base from which to operate, I would like you to consider what would be the outcome if we had to meet another emergency such as war, with Federal Reserve Bank reserves at their present level. When a state of war was declared on April 6, 1917, the combined reserves against deposits and note issues of all Federal Reserve Banks averaged 84.7 per cent. Due to this condition the United States was able to meet all financial obligations incurred without any impairment of its own ability or of that of the banks to redeem currency in gold, thus preserving the parity of all forms of money in circulation. This was an achievement impossible of accomplishment during the Civil War, when current prices were quoted in terms of irredeemable paper money, which was not brought back to a parity with gold until fourteen years after the close of the war.

Early in January, 1919, shortly after the armistice, the combined reserves of the Federal Reserve Banks was 51.3 per cent, showing a diminution of 33.4 per cent from the date of our country's entry into the war. The gold embargo was removed in June, 1919, when large amounts of gold held for foreign account were released. Even after this the reserves stood at 51 per cent on September 26th, after which date they showed a steady and continuous decline to 44.8 per cent at the close of the year.

During the last six months of the year 1919, tendencies towards unrestrained extravagance and abuse of credit were manifest all over the country. It became evident that the rediscount facilities of the Federal Reserve Banks were being used too freely and that unless corrective measures were applied the situation would become exceedingly dangerous. The rediscount rates of the Federal Reserve Banks were much below the market rates for money, thus affording member banks an opportunity for profit in their rediscount transactions, and making it exceedingly difficult to keep in check borrowing demands made upon them. The Federal Reserve Board and the Federal Reserve Banks, while recognizing the necessity of holding these dangerous tendencies in check by means of a reasonable and effective control of credit in order that its flow might be once more regulated and related to the economic welfare of the country and the needs of its producing industries, were reluctant to take any precipitate action. It was realized that productive industries are profoundly affected by credit conditions, that modern business is done on credit and that the mood and temper of the business community are deeply affected by the state of credit and may be easily disturbed by ill-considered or hasty action. The test of the functioning of a credit system must be found in what it does to promote the production and distribution of goods. It is well understood that too rapid or too drastic deflation would defeat the very purpose of a well regulated credit system by its unsettling effect upon productive industry. On the other hand, over production at high cost on expanded credit would be a grave menace. The Federal Reserve authorities recognized the importance of avoiding extremes and their energies were therefore directed more particularly to the prevention of further expansion for non-essential purposes and to the gradual and orderly liquidation of non-essential loans. The predominant idea was not necessarily to reduce the loan accounts of the banks of the country but to bring about such a readjustment in them as would ultimately lead to a restoration of a proper balance between the volume of credit and the volume of concrete things, which credit helps to produce and which are the normal basis of credit. The Board believes that this equilibrium can be restored only by speeding up the processes of production, by the orderly distribution of goods, by the avoidance of excessive consumption and by the increased accumulation of savings.

On several occasions, before changes were made in the discount rates of the Federal Reserve Banks, the Federal Reserve Board brought these matters to the attention of the public with a view of testing thoroughly the theory that the credit situation could be controlled without advancing the discount rates of the Federal

Reserve Banks. But because of the exhaustion of capital throughout the world and of the universal demand for credit, it soon developed that this was impossible. Rates were advanced slightly during November, 1919 and again on January 23, 1920, approximately to their present level. The rates established, however, were still considerably lower than current market rates. It became evident early in the spring that no reduction in the total volume of loans was taking place, and that unless a more discriminating judgment was used by member banks in granting accommodations, the country would be confronted with a real crisis during the crop moving period, into which we have now entered.

At a conference held last May between members of the Federal Reserve Board, members of the Federal Advisory Council and the Class "A", or banker, directors of the Federal Reserve Banks, there was an exhaustive discussion of the banking and financial situation. In presenting to the conference an outline of the Board's views, I pointed out that since June 30, 1914, there had been an expansion of banking credit in the United States, properly attributable to the war, of $11,000,000,000, and that during the same period there had been an increase in the volume of money in actual circulation of about $1,990,000,000. When it is considered that our Government during a period of three years floated $26,000,000,000 of securities to meet war requirements, the credit expansion which had taken place could not be regarded as excessive or alarming when viewed from the standpoint of war necessity. Attention was called however to the continued expansion which had taken place since the flotation of the Victory

Loan in May, 1919, in the face of a decreased production of essentials.

In order that you may understand the Board's viewpoint of some of our major problems last May, I shall quote literally from the statement presented to the conference.

"It is this tendency of production to decline, particularly in some essential lines, which constitutes a very unsatisfactory element in the present outlook. It is evident that the country can not continue to advance prices and wages, to curtail production, to expand credits and to attempt to enrich itself by non-productive operations and transactions without fostering discontent and radicalism, and that such a course, if persisted in, will eventually bring on a real crisis.

"The fact must be recognized that however desirable on general principles continued expansion of trade and industry may be, such developments must accommodate themselves to the actual supply of capital and credit available.

"Every effort should be made to stimulate necessary production, and to avoid waste. War waste and war financing result inevitably in diminished supplies of goods and increased volume of credits. The normal relationship between the volume of goods and the volume of money and credits thus unsettled can be restored in either of two ways; one, the drastic method of contraction of credit, and the other, by far the more desirable way, increased production. In the same way progress towards the restoration of the normal relationship between goods and credit may be made by reducing credit more rapidly than production is diminished, or by increasing production at a greater rate than credit is expanded. If it should prove impracticable in the existing circumstances to increase essential production, then we must through economy in consumption and through moderation in the use of credit check the tendency towards a further widening of the margin between goods and credit.

"Our problem, therefore, is to check further expansion and to bring about a normal and healthy liquidation without curtailing essential production and without shock to industry, and, as far as possible, without any disturbance to legitimate commerce and business.

"Regardless of the extent of its legal powers, it would be a most difficult task for the Federal Reserve Board to attempt by general rule of country-wide application to distinguish between 'essential' and 'non-essential' loans. During the war there was a broad underlying principle that essentials must be 'necessary or contributory to the conduct of the war', but notwithstanding the sharp outline of this principle much difficulty was experienced by the various war boards in defining essentials and non-essentials. It would be all the more difficult for the Federal Reserve Board to make such a general definition now when there is no longer that purpose as a guide.

"Section 13 of the Federal Reserve Act in defining the eligibility of paper for discount by Federal Reserve Banks lays down the general rule that any paper maturing within the time prescribed, and issued or drawn for commercial, agricultural or industrial purposes, or the proceeds of which have been used or are to be used for such purposes, is eligible. No express condition is made regarding the essential or non-essential character of the transaction giving rise to a note which may be offered for discount, and the Federal Reserve Board is not required and properly could not be expected generally to adopt such a criterion of eligibility. It is too much a matter of local conditions and local knowledge to justify at this time any general country-wide ruling by the Board even if such a ruling were deemed helpful.

"On the other hand, there is nothing in the Federal Reserve Act which requires a Federal Reserve Bank to make any investment or to rediscount any particular paper or class of paper. The directors of a Federal Reserve Bank are, however, required by law to administer its affairs 'fairly and impartially and without discrimination in favor of or against any member bank', and subject to the provisions of law and the orders of the Federal Reserve Board to extend 'to each member bank such discounts, advancements and accomodations as may be safely and reasonably made with due regard for the claims and demands of other member banks'. Thus the directors of a Federal Reserve Bank have the power to limit the volume and character of loans which in their judgment may be safely and reasonably made to any member bank.

"It is the view of the Board, however, that while Federal Reserve Banks might properly undertake in their transactions with member banks to discriminate between essential and non-essential loans, nevertheless that discrimination could much better be made at the source by the member banks themselves. The individual banker comes in direct contact with his customer; he is better qualified than anyone else to advise him because of his familiarity, not only with the customer's business but with general business conditions and needs in his immediate locality.

He is entirely free to exercise discretion and can make one loan and decline another as his judgment may dictate. He can estimate with a fair degree of accuracy the legitimate demands for credit which are liable to be made upon him, as well as the fluctuations in the volume of his deposits. He knows what industries sustain his community, and is thus qualified to pass upon the essential and non-essential character of loans offered him. He knows, or should know, what rediscount line he may reasonably expect of his Federal Reserve Bank, and he ought not to regard this line as a permanent addition to his capital. With knowledge of the limitations or penalties put upon his borrowings from the Federal Reserve Bank the banker must be depended upon to use a more discriminating judgment in granting credit accomodations to his customers.

"It is true that under existing conditions the volume of credit required in any transaction is much greater than was the case in pre-war times, but it is also true that the resources of the member and non-member banks would be ample to take care of the essential business of the country and to a large extent of non-essentials as well if there were a freer flow of goods and credit. If 'frozen loans' were liquefied, and if commodities which are held back either for speculative purposes or because of lack of transportation facilities should go to the markets, and if large stocks of merchandise should be reduced, the resultant release of credit would have a most beneficial effect upon the general situation. In the meantime everything must be done to expedite the release of these credits and to restrict non-essential credits in future.

"While the problem of credit regulation and control is national and even international in its scope, yet in the last analysis it is merely an aggregation of individual problems, and the proper working out of the situation must depend upon the public and upon the banks which deal with the public. The public should realize the necessity of economy in expenditures and in consequent demands for banking credit. The banks themselves are best able to impress the importance of this policy upon the public, and both must do their part in accelerating the processes of production and distribution and in restricting waste and extravagance."

The policies outlined by the Board have, generally speaking, met with the approval of solid banking and business sentiment, and there has been since last spring a marked improvement in the credit situation. This is due to the better character and greater liquidity of bank credits rather than to any actual decrease in the volume of credit. As a matter of fact, the expansion in loans and currency during the past twelve months has been greater than for any like period in the history of the country with the single exception of the period between September 1917 and September 1918 when we were in the midst of the war.

A-5

I wish to call your attention to a comparative statement showing certain items of resources and liabilities of the Federal Reserve Banks as of the last Friday in August, 1918, 1919, and 1920.

	August 30, 1918	August 29, 1919	August 27, 1920.
Total Gold Reserves	$2,013,794,000	$2,066,788,000	$1,971,825,000
Legal Tender Notes, Silver, etc.,	53,168,000	69,188,000	156,002,000
Total Cash Reserves	$2,066,962,000	$2,135,976,000	$2,127,827,000
Bills discounted secured by Government War Obligations	896,333,000	1,609,296,000	1,314,830,000
All others	531,862,000	205,838,000	1,352,297,000
Bills bought in open market	232,603,000	363,138,000	321,965,000
Total bills on hand	1,660,798,000	2,178,272,000	2,989,092,000
(Long-Term Securities (United States Government Bonds	30,350,000	27,096,000	26,810,000
Victory Notes		198,000	69,000
Treasury Certificates of Indebtedness	25,772,000	243,411,000	273,701,000
All other earning assets	67,000		
Total earning assets	1,716,987,000	2,448,977,000	3,289,672,000
Government Deposits	104,729,000	54,494,000	43,510,000
Due to Member Banks (Reserve Acct)	1,478,639,000	1,729,950,000	1,818,502,000
F.R. Notes in actual circulation	2,092,708,000	2,580,629,000	3,203,637,000
Federal Reserve Bank notes	20,687,000	219,815,000	200,793,000

These figures show that the banks of the country and the Federal Reserve Banks have functioned well in meeting business requirements. While the process of bond distribution and liquidation of loans secured by Government obligations has proceeded steadily, there has been a large expansion of commercial loans. This expansion would be disquieting if the character of the loans was not understood, but as long as the advances are made on short time and for essential purposes in connection with the processes of production and distribution of goods, there is no reason for apprehension. There has been little change in the actual reserve held by the Federal Reserve Banks during the past two years, but the total amount of bills held by them has increased from $1,660,798,000 on August 30, 1918, to $2,178,272,000 on August 29, 1919, and $2,989,092,000 on August 27, 1920, the increase from August 30, 1918 to August 29, 1919, having been $517,474,000, and from August 29, 1919 to August 27, 1920, $810,820,000. The total amount of bills held by the Federal Reserve Banks on January 23, 1920, the date when the present rate schedule became effective, was $2,729,247,000 so that the increase from that date to August 27, 1920, has been $259,845,000.

This increase in loans of the Federal Reserve Banks during the past year is a net increase despite a reduction in bills secured by Government war obligations of $294,466,000 and of bills bought in open market of $41,173,000, the increase in all other bills, including commercial rediscounts, having been $1,146,459,000.

On August 30, 1918, Federal Reserve notes in actual circulation amounted to $2,092,708,000, on August 29, 1919, to $2,580,629,000 an increase of $487,921,000, and on August 27, 1920, to $3,203,637,000, an increase during the past year of $623,008,000. Since the end of

August, this year, the crop moving demands have accelerated, and Federal Reserve note issues have increased at the rate of from $30,000,000 to $40,000,000 a week, and bills discounted and bought by Federal Reserve Banks at the rate of about $50,000,000 a week. The increase in the volume of Federal Reserve notes outstanding from January 23, 1920 to August 27, 1920, was $360,000,000.

Your attention is also invited to the following statement giving some of the figures furnished by a number of banks, including all of the more important member banks in the Federal reserve and branch bank cities and clearing house cities throughout the country. For convenience they are designated as "reporting member banks". Their resources are estimated to be between 65 and 70% of the resources of all member banks and between 35 and 40% of all commercial banks in the country.

REPORTING MEMBER BANKS.

	September 5, 1919	September 3, 1920
Number of Reporting member banks	774	819
Liberty Bonds	$636,804,000	$604,105,000
Victory Notes	316,489,000	192,778,000
Certificates of Indebtedness	1,334,416,000	422,050,000
U. S. Bonds securing circulation	269,393,000	268,906,000
Total United States securities owned	$2,557,102,000	$1,487,839,000
Loans secured by Government obligations (x)	1,294,285,000	695,291,000
Loans secured by stocks and bonds other than United States securities	2,956,596,000	3,044,120,000
All other loans and investments (x)	8,425,179,000	10,286,315,000
Total loans and investments, exclusive of rediscounts	$15,233,162,000	$15,513,565,000
Total loans and investments, including rediscounts with F. R. Banks	15,530,967,000	16,927,978,000
Reserve balances with F. R. Banks	1,342,058,000	1,394,957,000
Cash in vault	365,330,000	349,505,000
Net demand deposits	10,901,999,000	11,252,334,000
Time deposits	1,921,549,000	2,767,782,000
Government deposits	686,443,000	61,755,000
Bills payable with F. R. Banks	1,147,401,000	786,692,000
Bills discounted with F. R. Banks	297,805,000	1,414,413,000

(x) Exclusive of bills rediscounted with other banks, including Federal Reserve Banks.

The figures given in the foregoing table for September 5, 1919, were furnished by 774 member banks, and those for September 3, 1920, by 819 member banks. United States securities owned by all reporting member banks on September 5, 1919, amounted to $2,557,102,000 against $1,487,839,000 on September 3, 1920, a decrease of $1,069,263,000, of which $156,410,000 represents the permanent distribution of Liberty Bonds and Victory Notes to the investing public and $912,366,000 the decrease in the amount of Treasury certificates held by the reporting banks. During the same period the loans of these banks secured by Government obligations (exclusive of rediscounts) declined from $1,294,285,000 to $695,291,000, a decrease of $598,994,000. An increase of $87,524,000 in loans secured by stocks and bonds other than United States securities is not significant, but all other loans and investments, which include commercial loans (exclusive of rediscounts), increased from $8,425,179,000 to $10,286,315,000 an increase of $1,861,136,000, or 22.1 per cent. On January 23, 1920, the loans and investments (less rediscounts) of the reporting member banks, exclusive of loans secured by Government obligations and by other stocks and bonds, amounted to $9,505,927,000. The increase in these loans from that date up to September 3, 1920, has been $780,388,000, being an increase of 8.2% for the period. If the increase is figured on the amounts of loans, inclusive of rediscounts with the Federal Reserve Banks, the increase since that date works out at $1,252,379,000, or 12.3 per cent.

As shown in the table, total loans and investments (exclusive of rediscounts) of these reporting member banks show a net increase for the annual period covered from $15,233,162,000 to $15,513,565,000, or $280,403,000. If the larger amounts of rediscounts with the Federal Reserve Banks on the more recent date are taken into account, an increase of $1,397,011,000 from $15,530,967,000 to $16,927,978,000 is shown. Reserve balances with Federal Reserve Banks and cash in vault show a negligible increase of but $37,074,000, on the two items combined, while net demand/deposits of these reporting banks increased from $10,901,999,000 to $11,252,334,000 or $350,335,000.

(Note: Increase of time deposits due to a very large extent to admission of California State banks and Trust companies with large savings deposits.)

During the same time Government deposits held by them declined from $686,443,000 to $61,755,000, a loss of $624,688,000. Bills payable with Federal Reserve Banks, consisting principally of member banks' collateral notes secured by Government obligations, amounted on September 5, 1919, to $1,147,401,000, while on September 3, 1920, they had declined to $786,692,000, a decrease of $360,709,000. On September 5, 1919, the reporting member banks showed bills discounted with Federal Reserve Banks (this item includes commercial paper of various types) amounting to $297,805,000, and on September 3, 1920, $1,414,413,000, an increase of $1,116,608,000. The total accommodation received by these member banks from Federal Reserve Banks, being the sum total of bills payable and bills rediscounted, amounted on September 5, 1919, to $1,445,206,000, and on September 3, 1920, to $2,201,105,000, an increase of $755,899,000.

It is known that as a direct result of the discount policy of the Federal Reserve Banks there has been a very large decrease in the amount of speculative and non-essential loans, and it is believed that the increase in the loan account of these reporting member banks has been due largely to a response to legitimate agricultural, commercial and industrial requirements.

The rapid expansion in loans which is just now taking place is due, undoubtedly, to crop moving requirements. Seven Federal Reserve Banks are now rediscounting paper with three other Federal Reserve Banks, and at the close of business on September 9, 1920, the Federal Reserve Bank of New York had rediscounted with other Federal Reserve Banks bills receivable amounting to $35,250,000. The Federal Reserve Bank of Richmond has rediscounted $20,000,000; Atlanta, $30,200,000; St. Louis, $27,422,000; Minneapolis, $21,293,000; Kansas City, $18,902,000; and Dallas, $37,618,000; making a total of rediscount transactions of $190,685,000. Of this amount the Federal Reserve Bank of Boston advanced $76,195,000; the Federal Reserve Bank of Philadelphia, $4,000,000 and the Federal Reserve Bank of Cleveland, $110,490,000.

With the exception of New York all of the borrowing Federal Reserve Banks are located in agricultural sections. The Federal Reserve Bank of New York is the greatest single supporter of the acceptance market and it is known that member banks in New York City are lending heavily just now to country banks in the farming sections. Consequently it is not overstating the case to say that all of the Federal Reserve Bank inter-bank borrowing is for crop moving purposes.

Your attention is called to a statement of bills discounted by Federal Reserve Banks in the South and West which represent advances in support, directly and indirectly, of agricultural and live stock interests.

BILLS DISCOUNTED BY FEDERAL RESERVE BANKS IN THE SOUTH AND WEST WHICH REPRESENT ADVANCES IN SUPPORT DIRECTLY OR INDIRECTLY OF AGRICULTURAL AND LIVE STOCK INTERESTS.

Federal Reserve Bank	1 Bills discounted for members outstanding September 3, 1920.	2 Discounts directly in support of agricultural and livestock interests.	3 Estimated amount of discounts indirectly in support of agricultural and live stock interests.	4 Total estimated amount of discounts in support of agricultural and live stock interests.	Ratio of 2 to 1	Ratio of 3 to 1	Ratio of 4 to 1
	Amounts in thousands of dollars.				Per cent	Per cent	Per cent
Richmond	128,411	16,000	19,000	35,000	12.5	14.8	27.3
Atlanta	150,612	17,508	(a) 18,213	35,721	11.6	12.1	23.7
Chicago	448,855	(b) 142,000	(c) 75,000	217,000	31.6	16.7	48.3
St. Louis	(d) 131,900			29,000			22.0
Minneapolis	103,618	58,000	(e) 10,000	68,000	56.0	9.6	65.6
Kansas City	131,238			78,500			59.8
Dallas	112,280	33,452	22,688	56,140	29.8	20.2	50.0
San Francisco	162,559	38,300	(f) 57,200	95,500	23.5	35.2	58.7

(a) Includes $13,200,000 advanced against Government war securities to banks in strictly agricultural sections.
(b) " loans made directly or indirectly to banks in strictly agricultural sections.
(c) Loans to industries directly allied with agriculture.
(d) Figures for August 13 to which date estimate of $29,000,000 of loans for agricultural and live stock purposes applies.
(e) Advances against Government war securities.
(f) Includes $24,300,000 advanced against Government war securities.

Of the total amount of bills under discount as of September 3, 1920, the Federal Reserve Bank of Richmond estimates that 27.3 per cent were in support of agricultural and live stock interests. The Federal Reserve Bank of Atlanta estimates its percentage of agricultural and live stock bills to be 23.7 per cent, and this does not include the large amount of export bills discounted by the New Orleans Branch Federal Reserve Bank. At Chicago the percentage of paper rediscounted in support of agricultural and live stock interests to total bills held was 48.3 per cent; at St Louis, 22 per cent; at Minneapolis, 65.6 per cent; Kansas City, 59.8 per cent; Dallas, 50 per cent, and at San Francisco, 58.7 per cent. The total of bills discounted for member banks by these eight Federal Reserve Banks on September 3rd was $1,369,673,000.

As non-member banks cannot rediscount with Federal Reserve Banks and as by far the larger part of the loans of member banks are made out of their own resources, it is evident that the total of bank accommodations to agriculture and live stock interests are far greater than the amounts rediscounted at the Federal Reserve Banks. As a majority of these loans are seasonal in their character, it is evident also that their liquidation will do more than any other single factor towards strengthening the banking position.

Speaking for myself personally, I desire to say, however, that I am a firm believer in gradual and orderly methods of marketing our great agricultural staples. Agriculture is the most important of all industries, for upon its fruits depend the lives of those engaged in all other industries. The farmer is a great consumer of manufactured products and anything that affects his buying power is soon reflected in the business of the merchant and the manufacturer. While the individual farmer may be just as well off with small production and high prices, the mass of the population is far better off with full production and moderate prices. But farming as a business must be remunerative or production will languish. It is, therefore, important that the efforts of the farmer be supported and stimulated, that he be aided in preserving the full measure of his harvest and that he be afforded an opportunity of marketing his products on terms sufficiently profitable to warrant his staying in the business of farming.

Great staple crops, the production of which extends over a period of several months, must meet the requirements of consumption for a full year and in order to prevent possibility of shortage it is desirable that there be a reasonable surplus held over from one crop pending the marketing of the next. The gradual and orderly marketing of our great staple crops is, therefore, a matter of importance both to producers and consumers. The dumping upon the market within a short period of time of a large part of a crop, consumption of which extends throughout the year, means not only a loss to the producers, often to those who can least afford it, but involves also a great strain upon our transportation facilities and upon the banks in providing the funds necessary for large purchases in advance of actual requirements for consumption. Dumping of farm products promotes speculation and usually results in higher prices to the ultimate consumer. Farm products, however, should not be hoarded or held back from the market by the use of credit merely in the hope of forcing prices up to an artificial level. It is estimated by some that the value of this year's staple crops will be around $22,000,000,000, and it is manifestly impossible for any banking system to provide funds to withhold these staples entirely from the market. There is no occasion to discuss the questions of public policy involved for it is clear that the volume of our great staple crops is so large and the value so enormous, that any efforts to valorize them by means of bank credits would inevitably result in disaster by the operation of economic law. But I think that all reasonable assistance should be given producers to enable them to market their crops in an orderly way provided they are willing to sell enough to meet current requirements and that consumers should concede to the farmer reasonable profits in order that future production may be adequate.

What is needed is an open market in which the law of supply and demand is given free play and in which buyer and seller may meet on equal terms. Theoretically at least it is possible, if adequate warehousing facilities are provided, for the farmer to obtain the benefit of the average price for the year without any increase in cost to the consumer and with lessened strain upon transportation lines and banks by distributing the marketing process over a reasonable period.

I have called your attention to figures which should convince anyone that there has been no restriction of credit for legitimate business but on the other hand an unusually large expansion of credit. Exception is frequently taken, however, to the discount rates now prevailing at the Federal Reserve Banks. There has been some criticism of the Federal Reserve Banks' percentage of profits as related to their paid-in capital. As is the case with other banking institutions, the earnings of the Federal Reserve Banks are derived principally from interest on their loans and investments. Their earnings vary according to the volume of loans and with the rate of discount. The return from $3,000,000,000 of invested assets at 6 per cent is exactly the same as that from $4,500,000,000 of loans at 4 per cent. While the Federal Reserve Banks were not organized for the purpose of making money, their present high rate of earning is unavoidable and would not be reduced by a reduction in the discount rate, which would merely attract a larger volume of rediscounts and involve a reduction in reserve already nearly at the legal minimum.

The law allows Federal Reserve Banks to retain for distribution annually to their stockholding member banks, out of their net earnings, only an amount equal to 6 per cent of their paid-in capital stock. The remainder of their net earnings goes to the Government, either indirectly in the shape of additions to surplus or directly as a franchise tax. Very large payments will be made to the Treasury by the Federal Reserve Banks next January which can be used in the discretion of the Secretary of the Treasury either to supplement the gold reserve held against outstanding United States notes or they can be applied to the reduction of the outstanding bonded indebtedness of the United States.

Discount rates of a Federal Reserve Bank are established from time to time by the directors of the bank, subject to the review and determination of the Federal Reserve Board. The law provides further that these rates shall be fixed with a view of "accommodating commerce and business.". Section 13 of the Federal Reserve Act provides that "nothing in this Act contained shall be construed to prohibit notes, drafts and bills of exchange, secured by staple agricultural products or other goods, wares or merchandise from being eligible for discount; but such definition shall not include notes, drafts or bills covering merely investments, or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities, except bonds and notes of the Government of the United States."

There is a world wide demand for credit. There are nearly $25,000,000,000 of Liberty Bonds, Victory Notes and Treasury Certificates outstanding. Promissory notes secured by any of these bonds or notes of the United States are eligible for discount at the Federal Reserve Banks. A low rate of discount at the Federal Reserve Banks would attract heavy offerings of paper secured by these obligations, the proceeds of which could be used for any purpose and the result would be that pressure on member banks for loans of this character would be greatly increased, and the lending power of the Federal Reserve Banks absorbed by non-liquid loans in a very short time. The Federal Reserve Banks would then lose their ability to accommodate commerce and business.

As I have already pointed out, a thorough test was made last year of the theory that the credit situation could be controlled without advancing discount rates, but it was found that control could not be effected by an appeal to reason alone. As long as the customers of banks were aware of the fact that the member banks with which they dealt could lend them money and discount with the Federal Reserve Banks at a profit, it was much more difficult for the member banks to refuse accommodations than is the case when they can point out to would-be borrowers that member banks can rediscount with Federal Reserve Banks only on even terms or at a loss.

Interest rates at the Bank of England and other central banks are higher than the current market rates; for instance, the Bank of England rate is 7 per cent while current market rates in London range from 6-1/2 to 6-3/4 per cent.

Interest rates are, in the last analysis, governed by the time honored law of supply and demand. As the demand for credit becomes less acute and as the supply of loanable funds increases, interest rates will fall. Do not understand me, however, as attempting to justify any effort to keep the general level of rates above the Federal Reserve Bank discount rates, for when our banking system reaches the point where it can function normally the Federal Reserve discount rates ought always to be somewhat higher than the current market rates.

If a member bank or a group of member banks have been in the habit of charging customers interest at the rate of, say, 6 per cent per annum, the mere fact that these banks may be rediscounting four or five per cent of their total loans with the Federal Reserve Bank at 6 or 7 per cent does not, in my judgment, justify a corresponding increase in the member bank's rate on all loans. However, this is a matter which the member banks must settle with their own customers, with the Comptroller of the Currency or the state superintendent of banks as the case may be.

In view, however, of the present insistent demand for credit accommodations, I can appreciate the fact that the pathway of the average member bank is not strewn with roses. Our money market at present is distinctly a lenders' and not a borrowers' market, and banks all over the country are having applications for loans which they cannot make and many of which they would not care to make even during a period of extreme ease in the money market. However, I do not think it altogether fair for any bank to say to an applicant that it cannot make a loan because the

Federal Reserve Board or the Federal Reserve Bank will not permit it to do so. The Federal reserve authorities have no jurisdiction whatever over the loans which the directors and officers of a member or non-member bank may deem it expedient to make or to decline. The Board's function is to define eligible paper under the terms of the law and the managements of the Federal Reserve Banks use their judgment in discounting offerings of eligible paper as defined by the Board. All banks have perfectly good paper which is not eligible for discount at the Federal Reserve Bank under the terms of the law and it does not follow, merely from the fact that any particular loan is technically eligible that it must necessarily be intrinsically good.

The limitations upon the lending powers of national banks are defined in those sections of the Revised Statutes of the United States known as the "National Bank Act", and the banking departments of the respective states administer the laws applying to banking institutions operating under state charters. I would like to have it distinctly understood that the Federal Reserve Board has never sought to influence a bank either to make or to decline a loan.

The Federal Reserve Banks are authorized to purchase in the open market bankers' acceptances and bills of exchange of the kinds and maturities made eligible for rediscount, but with this exception they have no authority to deal directly with the public in their discount transactions; they are limited to eligible paper endorsed by a member bank. The extent, however, to which their discount facilities are now being used shows that through the medium of member banks the

Federal Reserve Banks are participating actively in extending credits.

In order to show the tendency of the banks of the country to lean more and more upon the Federal Reserve Banks, I would ask your attention to some figures showing the amount of net deposits, loans and discounts, and bills payable and rediscounts of national banks at corresponding periods during a series of years, the figures being compiled from reports made to the Comptroller of the Currency in response to calls sent out by this office. It is impossible to give the exact figures for the state banks and trust companies but the tendencies manifested in the national bank figures relate also to other banks.

STATEMENT SHOWING NET (DEMAND PLUS GOVERNMENT AND TIME) DEPOSITS, LOANS AND DISCOUNTS, ALSO REDISCOUNTS AND BILLS PAYABLE OF NATIONAL BANKS ON DATES OF COMPTROLLER'S CALLS SPECIFIED BELOW

(In thousands of dollars)

Dates	Net demand plus time and Government deposits	Loans and discounts, gross, i.e., including rediscounts and overdrafts	Total Rediscounts and Bills Payable	Percentage of total bills payable and rediscounts to total loans & discounts
September 4, 1906	5,024,641	4,331,459	48,942	1.13
August 22, 1907	5,399,367	4,709,027	59,177	1.26
September 23, 1908	5,809,887	4,781,522	53,285	1.11
September 4, 1912	7,140,396	6,061,009	82,375	1.36
September 12, 1914	7,332,621	6,417,910	150,071	2,34
September 12, 1916	10,247,920	7,921,070	91,893	1.16
September 11, 1917	11,676.340	9,234,289	285,104	3.09
August 31, 1918	12,412,213	10,111,113	1,294,005	12.8
September 12, 1919	14,561,218	11,541,503	1,503,516	13.04
June 30, 1920	15,008,567	13,623,892	2,205,633	16.2

The latest figures available at the Comptroller's office are taken from the statements of June 30, 1920. On that date the net deposits of all national banks were three times what they were on September 4, 1906, while loans and discounts had increased to the same extent. Their investments, however, which include bonds and securities, more than make up the difference

Figures are given for ten years, between 1906 and 1920, and show an unbroken gain in deposits as well as continuous increase in loans.

Your attention is directed particularly, however, to the proportion of bills payable and rediscounts of all national banks to their total volume of loans and discounts. On August 22, 1907, just before the panic of that year, bills payable and rediscounts of all national banks amounted to $59,177,000 against total loans and discounts of $4,709,027,000. The percentage of bills payable and rediscounts to total loans was 1.26%. On September 23, 1908, the percentage was 1.11%, on September 12, 1914, total bills payable and rediscounts had increased to the unprecedented amount of $150,071,000 or 2.34% of the total loans which amounted to $6,417,910,000. This increase was due to the disturbance incident to the outbreak of the European war. On September 12, 1916, bills payable and rediscounts had fallen to $91,893,000, or 1.16% of the total of loans of all national banks. On September 11, 1917, (thefirst year of our participation in the war) bills payable and rediscounts amounted to $286,104,000, or 3.09% of the total loans, which amounted to $9,234,289,000. These figures, of course, reflect war financing. The same observation will apply to figures for August 31, 1918 and September 12, 1919, when the percentages to total loans were 12.8% and 13.04% respectively.

But there has been no new financing by the Government since the flotation of the Victory Loan; the total volume of Government obligations outstanding has decreased since September 12, 1919, when rediscounts and bills payable of all national banks amounted to $1,505,516,000, while on June 30, 1920, the national banks' liability for money borrowed in this way amounted to $2,205,633,000, or 16.2% of their total loans of $13,623,892,000.

In conclusion I would say that the Federal Reserve System is still confronted with conditions more or less abnormal, but we have passed through the period of exhilaration or intoxication which characterized American business activities several months ago, and notwithstanding the gloomy predictions which were frequently made at that time the transition to a more normal basis is proceeding quietly and without alarming features. Credit which is required for seasonal needs is being granted, and business generally is looking forward to a Fall and Winter of at least average activity. Sentiment is being helped by the bountiful harvests, by the better outlook for the railroads and by the knowledge that many highly essential developments which have been long deferred by force of circumstances, such as enlargement of our transportation facilities and additions to housing accommodations throughout the country, must soon be undertaken. A broad demand, which will probably extend over a period of years, is opening up for the products of our basic industries, and if in the readjustments ahead of us, any lines of business should prove to be overdone, there is every assurance that any surplus of brains and energy now engaged in such lines can be readily utilized in other fields of activity.

We have problems confronting us and we shall always have them:- but, as always in the past, we can cope with them successfully if we approach them with a spirit of confidence and selfreliance tempered with common sense.

FEDERAL RESERVE BOARD

WASHINGTON

September 21,1920.
X-2010

Subject: Expense Main Line, Leased Wire System, for the Month of August, 1920.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-2010a and X-2010b, covering in detail operations of the main line, Leased Wire System, during the month of August, 1920.

Please deposit the amount payable by your bank in the general account, Treasurer U.S., on your books, and issue C/D, Form 1, National Banks, for Credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

TO GOVERNORS OF ALL F.R. BANKS EXCEPT CHICAGO

X-2010 a

REPORT SHOWING CLASSIFICATION AND NUMBER
OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL
RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF AUGUST 1920.

From:	Bank Business	Per Cent of Total Bank Business(*)	Fiscal Agency	War Finance	Total
Boston	55,382	3.94	10,817	-	66,199
New York	252,657	17.98	18,923	160	271,740
Philadelphia	48,964	3.48	4,654	-	53,618
Cleveland	104,725	7.45	10,310	-	115,035
Richmond	91,092	6.48	4,404	-	95,496
Atlanta	131,934	9.39	7,804	-	139,738
Chicago	183,913	13.09	10,515	26	194,454
St.Louis	120,090	8.54	4,974	-	125,064
Minneapolis	44,478	3.16	5,548	-	50,026
Kansas City	116,027	8.26	8,479	-	124,506
Dallas	92,568	6.59	4.492	-	97,060
SanFrancisco	163,552	11.64	11,994	-	175,546
Total F.R. Bks.	1,405,382	100.00	102,914	186	1,508,482
Washington	263,673		118,530	--	382,203
Grand Total	1,669,055		221,444	186	1,890,685
Percent of total	88.27		11.72	.01	100.

Bank Business	1,669,055	words	or	88.28%
Fiscal Agency Business	221,444	"	"	11.72%
Total	1,890,499			100.00

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X2010b)

Federal Reserve Board
Washington

September 21,1920.

X-2010 b

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM
AUGUST- 1920

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable Federal Reserve Board
Boston	$ 220.00	$ 1.00	$ -	$ 221.00	$ 584.13	$ 221.00	$ 363.13
New York	640.00	21.00	-	661.00	2,665.63	661.00	2,004.63
Philadelphia	225.00	-	-	225.00	515.93	225.00	290.93
Cleveland	500.00	-	-	500.00	1,104.50	500.00	604.50
Richmond	287.50		(*) 50.00	337.50	960.70	337.50	623.20
Atlanta	240.00	-	-	240.00	1,392.12	240.00	1,152.12
Chicago	(#)4,071.24	26.00		(#) 4,097.24	1,940.66	4,097.24	2,156.58 (**)
St.Louis	150.00	50.00	-	200.00	1,266.10	200.00	1,066.10
Minneapolis	265.84	-	-	265.84	468.49	265.84	202.65
Kansas City	200.00	-	-	200.00	1,224.59	200.00	1,024.59
Dallas	150.00	-	-	150.00	977.00	150.00	827.00
SanFrancisco	175.00	-	-	175.00	1,725.69	175.00	1,550.69
Federal Reserve Board			7,568.26	7,568.26			
TOTAL	$7,124.58	$98.00	$7,618.26	$14,840.84	$14,825.54	$7,272.58	$9,709.54
				15.30(&)			2,156.58 (+)
				$14,825.54			$7,552.96

(#) Includes salaries Washington operators.
(*) Cut-in at Washington on Richmond-Baltimore circuit.
(+) Amount reimbursable to Chicago.
(&) Received from War Finance Corporation covering business for month of July.
(**)Credit.

FEDERAL RESERVE BOARD
WASHINGTON
September 21,1920.

FEDERAL RESERVE BOARD

WASHINGTON

October 20,1920.
X-2010

Subject: Expense Main Line, Leased Wire System, for the Month of September, 1920.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-2010a and X-2010b, covering in detail operations of the main line, Leased Wire System, during the month of September, 1920.

Please deposit the amount payable by your Bank in the general account, Treasurer U.S., on your books, and issue C/D, Form 1, National Banks, for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Enclosures.

To Governors of all F.R. Banks <u>except Chicago</u>

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF SEPTEMBER, 1920.

From:	Bank Business	Per Cent of Total Bank Business(*)	Fiscal Agency Business	War Finance Corp. Business	Total
Boston	55,967	3.95	6,137	-	62,104
New York	216,610	15.27	28,579	.122	245,311
Philadelphia	52,676	3.72	7,232	-	59,908
Cleveland	109,452	7.72	12,549	-	122,001
Richmond	87,462	6.17	3,977	-	91,439
Atlanta	128,597	9.07	11,639	-	140,236
Chicago	192,371	13.57	10,469	-	202,840
St.Louis	127,937	9.02	7,695	-	135,632
Minneapolis	44,292	3.12	6,460	-	50,752
Kansas City	120,108	8.47	10,444	-	130,552
Dallas	107,132	7.55	4,605	.108	111,845
SanFrancisco	175,467	12.37	20,773	-	196,240
Total F.R. Banks	1,418,071	100.00	130,559	.230	1,548,860
Washington	258,487		154,013	106	412,606
Grand Total	1,676,558		284,572	336	1,961,466
Percent of Total	85.47		14.51	.02	100.

Bank Business	1,676,558	words or	85.49%
Fiscal Agency Business	284,572	words or	14.51%
Total	1,961,130		100.00

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-2010b)

FEDERAL RESERVE BOARD

WASHINGTON

October 20,1920.

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REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM
SEPTEMBER, 1920.

Name of Bank	Operators' Salaries	Operators' Overtime	Operators' Extra compensation	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	220.00	5.00	-	-	225.00	694.38	225.00	469.38
New York	790.00	20.00	448.00	-	1,258.00	2,684.36	1,258.00	1,426.36
Philadelphia	225.00	-	-	-	225.00	653.95	225.00	428.95
Cleveland	500.00	-	240.00	-	740.00	1,357.12	740.00	617.12
Richmond	287.50	-	-	*50.00	337.50	1,084.64	337.50	747.14
Atlanta	240.00	-	-	-	240.00	1,594.44	240.00	1,354.44
Chicago	# 4,260.17	17.75	## 1,651.22	-	5,929.14	2,385.51	5,929.14	3,543.63**
St.Louis	150.00	50.00	-	-	200.00	1,585.65	200.00	1,385.65
Minneapolis	258.34	-	-	-	258.34	548.47	258.34	290.13
Kansas City	200.00	-	-	-	200.00	1,488.97	200.00	1,288.97
Dallas	150.00	-	75.00	-	225.00	1,327.24	225.00	1,102.24
SanFrancisco	175.00	-	-	-	175.00	2,174.56	175.00	1,999.56
Fed. Res. Board				7,568.63	7,568.63			
Total	$7,456.01	$92.75	$2,414.22	$7,618.63	$17,581.61	$17,579.29	$ 10,012.98	$ 11,109.94
					2.32&			3,543.63"
					$17,579.29			$ 7,566.31

\# Includes salaries Washington operators.
\## Includes extra compensation operators Washington office.
* Cut-in at Washington on Richmond-Baltimore circuit.
** Credit.
& Received from War Finance Corporation covering business for month of August.
" Amount reimbursable to Chicago.

FEDERAL RESERVE BOARD
WASHINGTON

October 20,1920.

FEDERAL RESERVE BOARD

WASHINGTON

November 17, 1920.

X-2010

Subject: Expense Main Line, Leased Wire System, for the Month of October, 1920.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-2010a and X-2010b, covering in detail operations of the main line, Leased Wire System, during the month of October, 1920.

Please deposit the amount payable by your Bank in the general account, Treasurer U.S., on your books, and issue C/D, Form 1, National Banks, for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Enclosures.

Fiscal Agent.

To Governors of all F.R. Banks EXCEPT CHICAGO

X-2010 a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF OCTOBER 1920.

From:	Bank Business	Per cent of Total Bank Business(*)	Fiscal Agency Business	War Finance Corp. Business	Total
Boston	58,014	3.82	6,262	-	64,276
New York	236,375	15.56	26,895	-	263,270
Philadelphia	60,239	3.97	5,215	-	65,454
Cleveland	114,237	7.52	10,684	-	124,921
Richmond	100,965	6.64	2,250	-	103,215
Atlanta	135,433	8.91	8,508	-	143,941
Chicago	203,519	13.40	11,503	-	215,022
St.Louis	122,147	8.04	6,835	-	128,982
Minneapolis	48,425	3.19	5,427	-	53,852
Kansas City	120,785	7.95	11,534	-	132,319
Dallas	115,609	7.61	2,594	224	118,427
SanFrancisco	203,449	13.39	21,064	-	224,513
Total F.R.Banks	1,519,197	100.00	118,771	224	1,638,192
Washington	260,699		130,915	109	391,723
Grand Total	1,779,896		249,686	333	2,029,915
Percent of Total	87.68		12.30	.02	100.

Bank Business	1,779,896 words or	87.70%
Fiscal Agency Business	249,686 words or	12.30%
Total	2,029,582	100.00

(*) These percentages used in calculating the pro rate share of leased wire expense as shown on the accompanying statement (X-2010b)

FEDERAL RESERVE BOARD
WASHINGTON

November 17,1920.

X-2010b

REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM OCTOBER, 1920.

Name of Bank	Operators' Salaries	Operators' Overtime	Operators' Extra compensation	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston	$ 220.00	-	-	-	$ 220.00	$ 577.16	$ 220.00	$ 357.16
New York	715.00	6.00	-	-	721.00	2,350.94	721.00	1,629.94
Philadelphia	225.00	-	-	-	225.00	599.82	225.00	374.82
Cleveland	500.00	-	-	-	500.00	1,136.19	500.00	636.19
Richmond	287.50	-	-	50.00*	337.50	1,003.23	337.50	665.73
Atlanta	240.00	-	-	-	240.00	1,346.20	240.00	1,106.20
Chicago	4,314.22#	5.62	-	-	4,319.84	2,024.59	4,319.84	2,295.25**
St.Louis	150.00	50.00	-	-	200.00	1,214.75	200.00	1,014.75
Minneapolis	258.34	-	-	-	258.34	481.97	258.34	223.63
Kansas City	200.00	-	-	-	200.00	1,201.16	200.00	1,001.16
Dallas	150.00	-	-	-	150.00	1,149.78	150.00	999.78
SanFrancisco	175.00	-	-	-	175.00	2,023.08	175.00	1,848.08
Fed. Res. Board				7,568.63	7,568.63			
Total	7,435.06	61.62	-	7,618.63	15,115.31	15,108.87	7,546.68	9,857.44
					& 6.44	&		2,295.25 "
					15,108.87			7,562.19

Includes salaries Washington operators.

* Cut-in at Washington on Richmond-Baltimore circuit.

** Credit.

" Amount reimbursable to Chicago

& Received from War Finance Corporation covering business for month of September

FEDERAL RESERVE BOARD
WASHINGTON

November 17, 1920.

FEDERAL RESERVE BOARD

WASHINGTON

December 16, 1920.
X-2010

Subject: Expense Main Line, Leased Wire System,
for the Month of November, 1920.

Dear Sir:

Enclosed herewith you will find two mimeograph statements, X-2010a and X-2010b, covering in detail operations of the main line, Leased Wire System, during the month of November, 1920.

Please deposit the amount payable by your Bank in the general account, Treasurer U.S., on your books, and issue C/D, Form 1, National Banks, for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", Leased Wire System, sending duplicate C/D to Federal Reserve Board.

Very truly yours,

Enclosures.

Fiscal Agent.

To Governors of all F.R. Banks except Chicago

X-2010 a

REPORT SHOWING CLASSIFICATION AND NUMBER OF WORDS TRANSMITTED OVER MAIN LINE OF THE FEDERAL RESERVE LEASED WIRE SYSTEM FOR THE MONTH OF NOVEMBER 1920.

From	Bank Business	Per cent of Total Bank Business (*)	Fiscal Agency Business	War Finance Corp. Business	Total
Boston	51,936	3.70	7,281	-	59,217
New York	212,861	15.15	25,368	68	238,297
Philadelphia	54,356	3.87	4,877	-	59,233
Cleveland	108,192	7.70	10,744	-	118,936
Richmond	91,484	6.51	3,607	-	95,091
Atlanta	123,349	8.79	6,896	-	130,245
Chicago	191,499	13.63	12,060	-	203,559
St. Louis	108,497	7.72	3,925	-	112,422
Minneapolis	53,918	3.84	4,647	-	58,565
Kansas City	110,543	7.87	8,080	-	118,623
Dallas	103,955	7.40	3,535	31	107,521
San Francisco	194,102	13.82	28,776	-	222,878
Total F.R.Banks	1,404,692	100.00%	119,796	99	1,524,587
Washington	255,534		132,851	76	388,461
Grand Total	1,660,226		252,647	175	1,913,048
Percent of Total	86.78		13.21	.01	

Bank Business	1,660,226 words or	86.79%
Fiscal Agency Business	252,647 " "	13.21%
Total	1,912,873	100.00

(*) These percentages used in calculating the pro rata share of leased wire expense as shown on the accompanying statement (X-2010B)

FEDERAL RESERVE BOARD

WASHINGTON

December 16, 1920.

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REPORT OF EXPENSE
MAIN LINE
FEDERAL RESERVE LEASED WIRE SYSTEM NOVEMBER, 1920.

X-2010 b

Name of Bank	Operators' Salaries	Operators' Overtime	Wire Rental	Total Expense	Pro rata Share of Total Expense	Credits	Payable to Federal Reserve Board
Boston $	220.00	1.00	-	221.00	562.53	221.00	341.53
New York	720.00	-	-	720.00	2,303.33	720.00	1,583.33
Philadelphia	225.00	-	-	225.00	588.38	225.00	363.38
Cleveland	500.00	-	-	500.00	1,170.67	500.00	670.67
Richmond	287.50	-	(*)50.00	337.50	989.75	337.50	652.25
Atlanta	240.00	-	-	240.00	1,336.39	240.00	1,096.39
Chicago	4,317.35(#)	3.00	-	(#)4,320.35	2,072.24	4,320.35	2,248.11(**)
St.Louis	250.00	-	-	250.00	1,173.71	250.00	923.71
Minneapolis	258.34	-	-	258.34	583.81	258.34	325.47
Kansas City	200.00	-	-	200.00	1,196.51	200.00	996.51
Dallas	150.00	-	-	150.00	1,125.06	150.00	975.06
SanFrancisco	175.00	-	-	175.00	2,101.12	175.00	1,926.12
Fed. Res. Board			7,614.46	7,614.46			
Total	7,543.19	4.00	7,664.46	15,211.65	15,203.50	7,597.19	9,854.42
				8.15(&)			2,248.11(A)
				15,203.50			7,606.31

(#) Includes salaries Washington operators
(*) Cut-in at Washington on Richmond-Baltimore circuit.
(**) Credit.
(A) Amount reimbursable to Chicago
(&) Received from War Finance Corporation covering business for month of October.

FEDERAL RESERVE BOARD
WASHINGTON

December 16, 1920.

I. CREDIT CONTROL.

1. What are the objects sought to be attained by the policy of credit control in the existing circumstances?

Is the object

(a) To maintain or to strengthen reserves?

(b) To stabilize the existing situation by prevention of further expansion?

(c) To bring about a discriminating deflation by reducing the total volume of credit?

From statistics compiled by Professor Kemmerer of Princeton, bank deposits increased from $12,678,000,000 in 1913 to $27,928,000,000 in 1919. At the same time the ratio of cash reserves to total deposits diminished from 11.7 in 1913 to 6.6 in 1919.

> "Taking the index numbers of the United States Bureau of Labor Statistics as the most comprehensive and most scientifically prepared of the index numbers covering the entire period 1913 to 1919 inclusive, we may say that the wholesale price level increased from 1913 to April, 1920, 165%; in other words, if one calls the dollar of 1913 a 100% dollar in its purchasing power over commodities at wholesale, the dollar of today is approximately a 38% dollar."

This was the condition of affairs when the Federal Reserve Board undertook to exercise its power over credit for the purpose of protecting personal and commercial interests. All experienced business men knew that prices would seek a lower level, by gradual process if good judgment and conservatism prevailed, or by a commercial debacle if the illogical, ill-considered and extravagant methods brought about by the war were permitted to continue. Under these circumstances, and none too soon, the Federal Reserve Board exercised its power over credit in order to constrain bankers and business men to exercise conservatism and help strengthen commercial and financial conditions. The Board in so doing have accomplished a great work and have demonstrated one of the powers for good which the Federal Reserve System possesses. Naturally their first move was in the direction of strengthening the bank's reserves. That means strengthening the bank and putting it in a liquid position - in the position in which a well managed bank should always be, to respond to the demands of its clientele. Strengthening the reserves meant curtailing credit and <u>ipso facto</u> would prevent "further expansion". No one wishes to "Stabilize" existing conditions, but to get away from them to a safer and more conservative level. This would naturally bring about a "Discriminating deflation" by extending credit to such industries as were essential and needed support in order to preserve the general business welfare, and by restraining credit to activities which though perfectly legitimate were nevertheless non-essential to the general welfare and should be promoted by the funds of their owners and managers, and not be allowed to absorb commercial resources needed for the financing of business closely connected with the public welfare.

2. Can a substantial reduction in the volume of credit be effected without injury to the legitimate business of the country and without curtailment of essential production?

A substantial reduction of the volume of credit can be effected without injury to the legitimate industry of the country and without curtailing of essential production. Not only this but such reduction in volume of credit may be made to materially strengthen the credit fabric of the country as a whole.

The first and most beneficent effect of the act of the Federal Reserve Board in controlling credit was to arrest the attention of the whole country and to incur high commendation from conservative forces and incur criticism ranging from mild to violent from certain sections or interests. It made everybody stop and think and the discussion which ensued showed plainly that the Board was right. The psychological attitude of the country toward business immediately began to change and from wild extravagance and a disposition to enter into new and ill-considered business, there came about a feeling of conservatism. People began to ask themselves just where they stood, how much they were really worth, and how they would fare if called upon to liquidate their outstanding obligations. Drafts drawn against goods shipped abroad were not always paid and sometimes returned. People began to repudiate their contracts to receive goods, especially in cases where the price had receded. Competition in business has brought about a most unfortunate practice - people order goods and then if it does not suit their convenience, they refuse to receive and pay for the same. This has continued so long and is so much the custom that manufacturers and wholesalers, hardly expect to hold their customers to rigid fulfillment of their contracts, if a change in the market or a change in business conditions makes it desirable for them to repudiate. Such repudiation of purchases began to happen generally and manufacturers and wholesalers found themselves possessed of large volumes of very high-priced goods which they could not market without loss. That is the condition of the mercantile industry in our country today. They have for years dictated the price of their goods and they are now endeavoring to dispose of them to the public without material abatement in prices. It is generally realized that they cannot accomplish such results; recessions in price have already set in and are bound to be more pronounced. Business people will have to liquidate their goods in order to liquidate financial obligations. This will bring about competition in selling throughout the country, something that has not existed for several years and this competition in its normal and natural course will clarify the situation and bring about normal conditions.

3. To what extent has one or more of these objects been attained in each District and in the country at large?

The object sought to be accomplished by the Federal Reserve Board has been and is being accomplished in all Districts.

4. To what extent is it necessary to distinguish between the immediate objective of the policy of credit control and the remoter objective, such as reduction in the cost of living?

The immediate effect of credit control is to safeguard the situation, to enable all business to function normally and the Board should at all times make this clear. Although a logical result may be lower prices and lower cost of living, it should distinctly appear that the Board does not seek to control or regulate prices, but leaves the price level to competition under the law of supply and demand.

Question - What is the proper conception of the "normal credit condition" which the Federal Reserve Banks should seek to bring about?

Note: Obviously if "liquidation" or "stabilization" of the existing credit situation are to be regarded as the objectives of the Federal Reserve policy of credit control, a condition which can be regarded as "normal" will be attained very much more quickly than if the objective is a reduction in considerable amount of the total volume of credit.

The proper concept of "a normal credit condition" is something that varies with the years, with the crops, with commerce, involving domestic and foreign exchange, and with all the varying influences that make up the activity of a commercial nation. The making of crops has to be financed. While we are greatly indebted to nature for her annual contribution to the prosperity and happiness of mankind, the volume of that contribution depends very largely upon mankind's activities. The latent resources so abundant and so valuable nevertheless must be exhumed and that costs time and money and is a regular business in itself. A normal credit condition would seem to be one in which funds were obtainable in sufficient volume to enable the individual, the corporation, the great transportation systems of the country, the municipality and the state to obtain funds at reasonable rates with which to prosecute their respective enterprises. This is not a static world; there should also be funds available for new and enlarged enterprise, for installation of new and improved methods and processes, which the inventive genius of mankind is constantly producing.

5. Methods of credit control. Consideration of the efficacy of different methods of credit control.

(a) Horizontal increase of rates, especially of commercial rates; a canvass of the experience of banks which have put into effect a 7% commercial rate, to wit, New York, Boston, Chicago and Minneapolis.

(b) Progressive rate schedules starting with 6% as a basis rate; a canvass of the experience of Federal Reserve Banks of Kansas City, Dallas, St. Louis, and Atlanta.

(c) Other methods of dealing with the situation, such as the implication that increased offerings by member banks will force higher rates or recourse to the progressive rate; a canvass of the experience of Federal Reserve Banks of Cleveland, Philadelphia, Richmond, and SanFrancisco.

(d) Restricting issues of Federal Reserve notes to Federal Reserve Banks as a potential means of enforcing credit control; canvass of English experience and views.

The different methods of credit control have not had a sufficient test period for the experience of the banks to be conclusive. It is found that each class of banks holds its own method to be most satisfactory and in such a situation there should be further experience before we could give to the Board any conclusion as between the three methods in use or advise any present attempt at uniformity in method.

6. Inter-Reserve Bank rediscounts as related to the problem of credit control. Is the existing policy and practice with respect to such rediscounts satisfactory and sound?

(a) To effect an approximate equalization of reserves?

The existing policy with respect to Inter-Reserve Bank rediscounts is sound and the Board is to be highly commended for the manner in which they have made it effective.

(b) At the same rate fixed for its member banks by the bank granting the accommodation?

Note: When recourse was first had to inter-bank rediscounts it was thought that the value of a Federal Reserve Bank's endorsement was entitled to recognition in the form of a reduced discount rate. More recently this idea has been abandoned and rediscount transactions between Federal Reserve Banks are made at the rates established for member banks by the Federal Reserve Bank extending the accommodation. The question now arises, however, whether a Federal Reserve Bank which has been able to maintain high reserves by reducing the demands for accommodation from its own member banks, which are its depositors, should be required to extend accommodations to member banks in other Districts through the medium of their Federal Reserve Bank at the same rates as are established for their own members.

The rate of such rediscounts should be variable and fixed by the Board from time to time as the situation may appear to require and without any special regard either for the profit or loss to the contracting banks. In the present situation we approve the action of the Board in fixing the rate of such rediscounts at seven per cent.

II. LOANS SECURED BY LIBERTY BONDS AND VICTORY NOTES.

1. Is there any moral obligation resting upon any of the Federal Reserve banks to establish rates lower than commercial rates for paper of this classification?

It is difficult for this Council to determine whether any moral obligation exists in <u>any</u> of the Federal Reserve Districts.

On the general proposition of moral obligation arising out of the methods adopted in the various Liberty Bond campaigns the Council is equally divided, voting 6 to 6.

2. Would liquidation of loans of this class be retarded or promoted by the establishment of lower rates?

The establishment of lower rates doubtless would retard the liquidation of loans secured by Liberty Bonds and Victory Notes.

3. If lower rates are deemed desirable, would it be equitable and practicable to have such rates apply to original subscribers only?

It might be equitable to confine preferential rates to original subscribers only, but we are informed that you have been advised that it would not be legal, and in our opinion it would not be practicable.

4. Should member banks' collateral notes be fully secured, taking market value instead of face value as a basis?

5. If so, how and when could the new policy be put into effect with a minimum of friction?

Yes. We understand this is the practice in some districts and should be made general.

III. FEDERAL RESERVE NOTE ISSUES.

1. Is the note-issue policy of the Federal Reserve System subject to legitimate criticism?

We regard the note-issue policy under the Federal Reserve System as sound and therefore not subject to legitimate criticism.

2. What connection is there between changes in the volume of credit and the volume of currency?

3. Is there any difference in relation to effect upon prices between the volume of credit and the volume of currency?

It is not clear to the Council just what is meant by these questions. They are too involved to admit of their being satisfactorily answered in the time at the Council's disposal.

4. Can the note issue policy of the Federal Reserve System be properly charged with any important responsibility for inflated prices, if so, what has been the responsibility and in what way does the issue of Federal Reserve notes promote or assist inflation?

An increase of the Federal Reserve note issue was made necessary by war conditions and doubtless had some influence in inflating prices, but in the opinion of the Council there has been no undue issue of these notes.

5. Can the accepted principles of bank-note-currency regulation, applicable in normal circumstances when the commerce of the world is conducted on a gold standard, be safely taken as a guide in the abnormal circumstances now existing, when the gold standard is virtually suspended, except in the United States and Japan?

6. In connection with the policy of credit control should the present note-issue policy of the Federal Reserve System be changed and restrictions be thrown around the issue of Federal Reserve notes?

7. If the issue of Federal Reserve notes should be restricted, what form should the restriction take and what effect would different methods of restriction have?

(a) Imposition of charges against Federal Reserve notes upon the uncovered part of circulation issued to them at a given rate, for example, a fixed rate of 5% or a rate varying with the commercial rate.

(b) Would it be practicable to establish for each member bank a so-called normal currency limit and to impose charges upon member banks calling for notes in excess of their limit?

(c) Would it be advisable while continuing to have the Federal Reserve Banks pay all transportation charges on incoming currency, to have shipments of outgoing currency made at the expense of the consignees?

(d) Restrictions by definition of the character of the paper acceptable as collateral by the Federal Reserve Agent against the issue of Federal Reserve notes. Should member banks' collateral notes or customers' notes secured by Government obligations be taken as collateral for Federal Reserve notes?

(e) Limitation of the total volume of Federal Reserve notes by the Federal Reserve Board, the maximum amount being fixed pro rata for each Federal Reserve Bank. (The Federal Reserve Board has statutory power to accept in part or to reject entirely all applications for Federal Reserve notes).

Would restriction of note issues in any of the above mentioned ways operate to promote a better control of credit, and if so, what would be the effect upon the commerce and business of the country?

We know of no reason why the principles under which bank note currency as issued under the Federal Reserve system should be changed as sufficient time has not elapsed to test its flexibility in response to business conditions. The Council is of the opinion that no alteration should be made in the regulations governing the currency issued which would impair its elasticity.

FEDERAL ADVISORY COUNCIL
WASHINGTON

September 21,1920.

FEDERAL RESERVE BOARD

WASHINGTON

September 27,1920.

X-2012

CONFIDENTIAL

Dear Sir:

The Federal Reserve Bank of New York recently sent to the Federal Reserve Board for its information a "Summary of Proposed Changes in Cash and Custody Functions."

The question of providing all possible safe-guards for the protection of cash and securities is always of paramount importance, and anything which tends to improvement in this field cannot fail to be of interest to the Federal Reserve Banks, as it is to the Federal Reserve Board. It occurs to this office that you might be interested in the plan adopted by the Federal Reserve Bank of New York and, with that Bank's permission, a copy of the plan is forwarded herewith. The Board is not prepared to say that this plan is adaptable to the other Federal Reserve Banks, but wishes merely to acquaint all the Banks with the latest developments in bank management.

Very truly yours,

Enclosure.

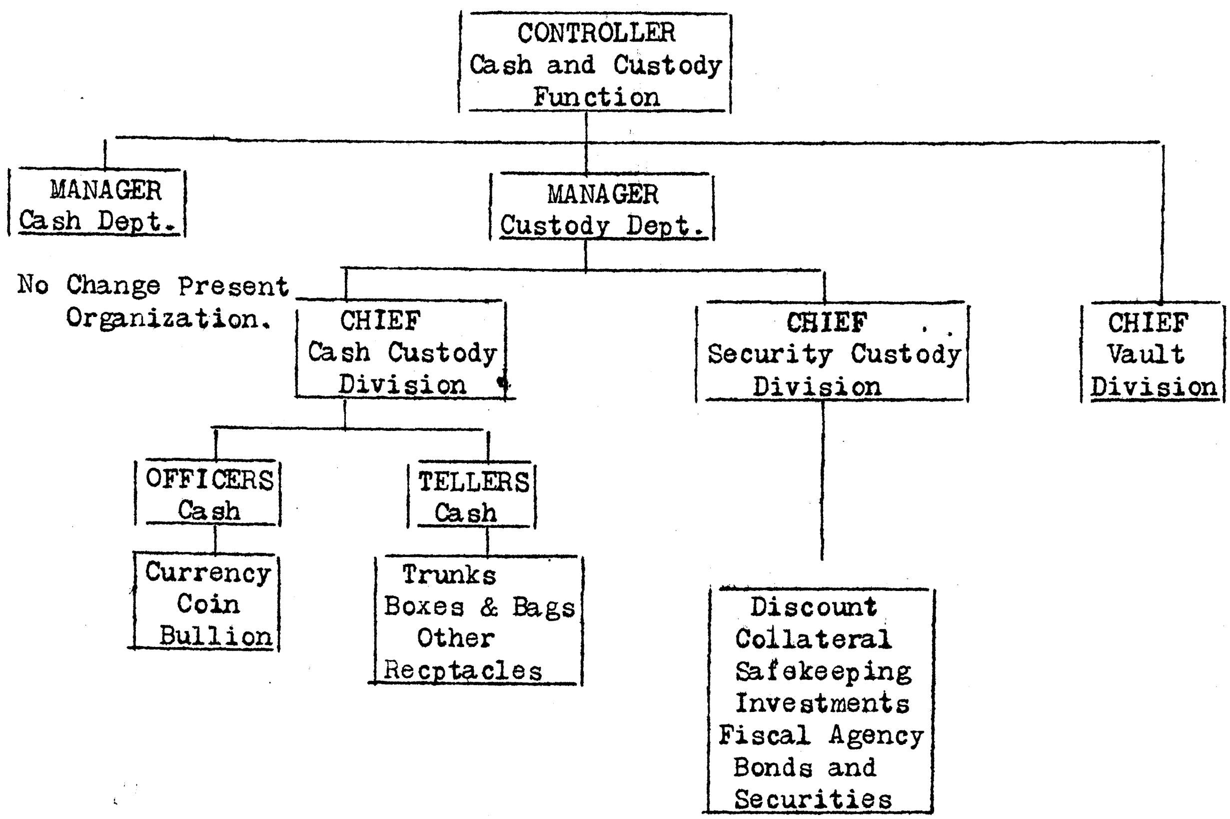
Governor.

To Chairmen of all F.R. Banks.

X-2012 a

SUMMARY OF PROPOSED CHANGES IN CASH AND CUSTODY FUNCTION.

It is recommended that the Cash and Custody Function be reorganized as follows, and that the vault regulations be amended to conform to such reorganization:



The policy of considering the cash of the bank as under the personal supervision and custody of the officers is a heritage of the days when banking was conducted on such a small scale that the cashier could be personally charged with the responsibility of supervising all cash. Since then, however, the functions of banking have become so enlarged and ramified that it has been necessary to segregate the various functions performed and place each in charge of a staff specialist, responsible only for the work falling within his function.

The recent reorganization of the Federal Reserve Bank took cognizance of this in all respects save in the custody of the cash of the bank. In this particular instance the old practice is still in vogue, the officers being jointly responsible for the control and custody of cash.

This method not only decentralizes the responsibility for controlling the cash, but proves in practice to be exceedingly cumbersome and expensive. Not only are several officers compelled to spend the greater part of the day in the vaults setting combinations, but departments are forced to waste a considerable amount of time waiting for an officer to reach the vault. These delays have a direct effect upon the service rendered to member banks in that, in many instances, bank messengers have been held on the line of our Paying Division for an unnecessarily long time.

No similar difficulties are experienced in handling securities, because the custody of all securities has been centralized in the Custody Department. The securities handled total $3,400,000,000, in negotiable form, as compared with $300,000,000. in cash, and in spite of the fact that there is infinitely more work attached to the handling of securities than to the handling of cash, it has been possible through the centralization of the control of securities in the Custody Department to handle securities with the maximum of protection combined with an economy and efficiency of operation that is lacking in the present decentralized method of controlling cash.

Our experience with securities indicates that the logical method of controlling and handling cash would be through the organization of a Cash Custody Division similar to the present securities Custody Department.

The advantages of the reorganization as charted above are briefly as follows:

A. CONTROL

1. (a) The Securities Custody Division will have custody of securities deposited in the vault for safekeeping. (This is the same as at present.)

   (b) The Cash Custody Division will have custody of all officers' cash deposited in the vault and of all trunks, trucks or other receptacles, deposited by tellers and departments in the vault for safekeeping over night.

2. The organization of a Cash Custody Division will definitely place the custody of officers' cash and trunks in a division of the bank that will be shown on the organization chart as above. The centralization of control and responsibility thus secured greatly increases the protection afforded the directors and officers of the bank in the handling of these valuables.

3. The two Custody Divisions will operate as a safe deposit company in conjunction with members of Group 1, making it possible to reduce the number of employees, approximating three hundred, now authorized by the vault regulations to have access to the vault, to approximately twenty employees other than officials of the bank. (See summary of Changes in Existing Vault Regulations attached.)

B. <u>OPERATION</u>

1. Transactions of the Cash Custody Division will be witnessed by representatives of three distinct groups.

   (a) One or more members of Group 1
   (b) One or more members of the Cash Custody Division
   (c) One or more representatives of the Auditing Department

2. All transactions of the Cash Custody Division will be based upon properly authorized deposit or withdrawal tickets.

3. The Cash Custody Division will debit and credit other departments for transactions with it, and its daily proof will form an integral part of the cash proof of the bank.

4. All entries in the records of the Officers' Cash Section of the Cash Custody Division will be audited daily.

5. The process of depositing and withdrawing cash from the vault will be greatly simplified. Departments will no longer be forced to wait in the vault until an officer can be secured to set the combination, and officers will not be required to spend so much time in the vault, thus effecting an increase in operating efficiency with a decrease in cost.

X-2012 a

SUMMARY OF CHANGES IN EXISTING VAULT REGULATIONS
UNDER PROPOSED REORGANIZATION
OF CASH AND CUSTODY FUNCTION.

OUTSIDE DOORS TO ALL VAULTS

Membership	Present	Proposed
Group 1 Upper dial entrance doors to vaults	General Officers and Senior Officers, and Mr. Fowler Mr. Goodwin Mr. Sprowl Mr. Meeks	General Officers and Senior Officers, and Mr. Fowler) (Chiefs and Mr. Goodwin) (asst.chiefs Mr. Sprowl) (of Vault Div Mr. Meeks)
Group 2 Lower dial entrance doors to vaults	All managers Mr. Hammond Mr. H. C. Low, Jr. Mr. Furman Mr. Rees Mr. Jenkins Mr. Vansant Note: On main vault in this building the following are also authorized: Mr. Lotts Mr. Harvey Mr. Hollingshead Mr. Chapin	All managers Chief - Paying Division Chief - Receiving Division Chief - Money Division Chief - Securities Custody Dv. 1st Asst. Chief-Securities Custody Division Chief - Cash Division 1st Asst.Chief-Cash Custody Division

INTERIOR COMPARTMENTS OF ALL VAULTS

Membership	Present	Proposed
Group 1 Upper dial interior compartments:	General Officers and Senior Officers, and Mr. Fowler Mr. Goodwin Mr. Sprowl Mr. Meeks Note: Only controls compartments containing officers' cash and large reserve. In case of latter, combination is held only by general and senior officers.	General Officers and Senior Officers, and Mr. Fowler) (Chief and Asst. Mr. Goodwin) (chiefs of Vault Mr. Sprowl) (Division Mr. Meeks Note: Hold upper dial combinations of <u>all interior</u> compartments which include all cash and custodies of the bank.

INTERIOR COMPARTMENTS OF VAULTS (Cont'd)

Membership	Present	Proposed
Custody Groups Lower Dial interior compart-	1. Officers' Cash G. E. Chapin / R. M. O'Hara C. H. Coe / J. E. Raasch J. E. Crane / J. M. Rice Ralph T. Crane / L. R. Rounds B. M. Grant / I. W. Waters W. A. Hamilton / E. C. French H. M. Jefferson / R. W. Furman J. W. Jones / J. F. Hammond A. J. Lins / H. C. Jenkins W. B. Matteson / H. C. Low, Jr. H. R. Murray / H. K. Rees S. S. Vansant	1. Cash Custody Division Officers' Cash and Tellers' Cash Manager, Custody Department Manager, Cash Department or in their absence any one of four names to be selected from the Cash Custody Division.
Custody Groups Lower dial interior compart-ments	2. Custody Department Group A: H. C. Jenkins, W. A. Watson, W. E. Townsend, George Lown Group B: L. Ten Eyck, C. E. Price, P. DeFliese, M. J. Heaphy, F. Tellander, C. F. Bahntge	Securities Custody Div. Manager, Cash Department Manager, Custody Dept. and in their absence any one of six names to be selected from Securities Custody Div.
Special Groups	3. Bill Department Group A: Earl V. Guy, W. A. Keepers, J. P. Dunn Group B: M. J. McLoughlin, W. S. Leonard, D. Gardner	Eliminated Will be deposited with Cash Custody Division
	4. Cash Department (Authorities Div.) Single combination compartment.	Eliminated Will be deposited with Cash Custody Division.
	5. Cash Department (Gold Bullion Sec.) Group A: John White, P. J. Donohue Group B: F. M. Curtis, W. C. Salter	Eliminated Will be deposited with Cash Custody Division.

INTERIOR COMPARTMENTS OF VAULTS (Cont'd.)

Membership	Present	Proposed
	6. Cash Dept. (Incoming Reg. Mail Sec.) Group A: F.B. Anderson, F. Seeger, F.N. Delevan, J.A. Cole Group B: R. McKinley, J.J. Potter, C.J. Witmore	Eliminated Will be deposited with Cash Custody Division.
	7. Cash Dept. (Money Div. -Mixed Currency) Group A: A.L. Griffin, A.C. Dunckleman, R.E. Gatechair Group B: A.C. Walton, C. Hickok, W.G. Seyforth	Eliminated Will be deposited with Cash Custody Division.
	8. Cash Dept. (Money Div. - Nts. other F.R.B.) Group A: James Fletcher, Albert Tuttle Group B: C. Simonson, H. Woolny	Eliminated Will be deposited with Cash Custody Division.
Special Groups Lower dial interior compartments	9. Cash Department (Money Div.-Trunk Sec.) Group A: J.J. Byrnes, F. Montignani, A.C. Dunckelman, B.P. Moffat, W.A. Anderson, E.H. Osterhaus, A.C. Walton, A.L. Griffin, R.C. Chapin, R.E. Gatechair Group B: R.W. Combes, C.M. Christie, C.I. Budd, J. Dundas, J. O'Sullivan, I.L. Parker, R. Major, B.P. Boas, F. Gugal, J.J. Logue	Eliminated Will be deposited with Cash Custody Division
	10. Cash Dept. (Money Div.Unasst. F.R. Notes) Group A: R.C. Chapin, Richard Major, M.H. Rudyard Group B: J.J. Logue, F.S. Stubbs, H. Kinne	Eliminated Will be deposited with Cash Custody Division
	11. Cash Department (Paying Div.) Group A: C.C. Bell, H. Hollingshead, W. Marcus Group B: G.H. Lotts, T.B. Bruder, A. Black, C.A. Senior	Eliminated Will be deposited with Cash Custody Division

INTERIOR COMPARTMENTS OF VAULTS (Cont'd.)

Membership	Present		Proposed
Special Groups Lower dial interior compartments	12. Cash Department (Receiving Div.) Group A V.A. Harvey P.P. Malcolm F. Stocker	 Group B J.A. Anderson J.G. North A.G. Anderson	Eliminated Will be deposited with Cash Custody Division
	13. Cert. of Indebt. Dept. (Issue) Group A U. Wells T.B. DeLa Ree G. Stephenson	 Group B H.L. Carpenter Garrett LaPort H.A. Davis	Eliminated Will be deposited with Cash Custody Division
	14. Cert. of Indebt. Dept. (Redemp) Group A U. Wells F.J. Kammerer G. Stephenson	 Group B G.M.D. Klov B.H. Manee E. Voorhees	Eliminated Will be deposited with Cash Custody Division
	15. Cash Dept.(Money Div. 1's & 2's Sec.) Group A I.L. Parker B.P. Moffat F. Montignani R.A. Falb	 Group B J.F. Dundas W.A. Anderson E.H. Osterhaus J. O'Sullivan	Eliminated Will be deposited with Cash Custody Division
	16. Cash Dept. (Money Div.Cancel & Cut. Sec.) Group A L. Carrazone A. MacNeil	 Group B R. Combes T. Forster M.H. Rudyard	Eliminated Will be deposited with Cash Custody Division
	17. Check Dept. (Redemp & Return Item Div.) Group A H. Drew D. Miller J. Earle	 Group B A. Kesses E. McMahon R. Nalley	Eliminated Will be deposited with Cash Custody Division
	18. Collection Dept. (City Coll. Div.) Group A F.J. Drier H.R. Tappan A. Surman W. Weaver	 Group B S. Lerer W. Reckert F. Peterson L. Vorback	Eliminated Will be deposited with Cash Custody Division

INTERIOR COMPARTMENTS OF VAULTS (Cont'd)

Membership	Present		Proposed
Special Groups Lower dial interior compartments	19. Collection Dept. (Coup. Coll. Div.)		Eliminated Will be deposited with Cash Custody Division.
	Group A.	Group B	
	V. Willis	B. E. Wendell	
	R. J. Stephens	G. V. VanSicklen	
	A. W. Cunningham	W. H. Mallon	
	20. Collection Dept. (Country Coll. Div.)		Eliminated Will be deposited with Cash Custody Division.
	Group A.	Group B	
	A. H. Murdock	J.C. Carraway	
	F.G. Adams	A. Hague	
	W.R. Noe	E.K. Foster	
	21. Disbursing Dept. (Expense Div.)		Eliminated Will be deposited with Cash Custody Division
	Group A	Group B	
	V.C. McLaren	E.G. Stocker	
	C.C. Hickey	P. Bicksler	
	M.S. Ross	Cyril Boyce	
	22. Govt. Bond Dept. (Bank Exchange Sec.)		Eliminated Will be deposited with Cash Custody Division
	Group A	Group B	
	J.G. Hall	L.J. Winters	
	W.W. Burt	D. Denny	
	S.C. Merwin	C.A. Jagels	
	E. Seer	H. Griffin	
	23. Govt. Bond Dept. (Supply & Prep. Sec.)		Eliminated Will be deposited with Cash Custody Division
	Group A	Group B	
	H.W. Scott	C.A. Jagels	
	A. Martin	C.A. Newkirk	
	S.C. Merwin	G. Wallace	
	C. Cable	W. Roberts	
	24. Govt. Bond Dept. (Conversion Sec.)		Eliminated Will be deposited with Cash Custody Division
	Group A	Group B	
	G. McCormick	C.A. Jagels	
	R. Haring	F. Farrell	
	S.C. Merwin	L. Leger	
	R. Brown	T. Mannion	
	25. Govt. Bond Dept. (Coupon Paying Div.)		Eliminated Will be deposited with Cash Custody Division
	Group A	Group B	
	J.B. Cunningham	S.V. Ray	
	William Wallace	E. Wonsor	
	S.C. Merwin	C.A. Jagels	
	W. Barritt	F. Youhass	

INTERIOR COMPARTMENTS OF VAULTS (Cont'd.)

Membership	Present		Proposed
Special Groups Lower dial interior compartm's	26. Govt. Bond Dept. (Delivery Sec.) Group A A. Hughes C. Thompson S.C. Merwin J. Schaefer	 Group B C.A. Jagels J. Kling H. Lewis H. Foote	Eliminated Will be deposited with Cash Custody Division.
	27. Govt. Bond Dept. (Exc. Denom. Sec.) Group A W. Elliott Edward McManus S.C. Merwin C. Abele	 Group B C.A. Jagels G. Kurtz W. Disbrow R. Diringer	Eliminated Will be deposited with Cash Custody Division
	28. Govt. Bond Dept.(Individ.Exc.Sec.) Group A G.E. Jamison C.H. Smiley S.C. Merwin A. Ghia	 Group B R.M. Haviland D.J. Lewis C.A. Jagels J. Knox	Eliminated Will be deposited with Cash Custody Division
	29. Govt. Bond.Dept.(Reg.Exchange &Trans Sec.) Group A J. Hynes W. Brush S.C. Merwin J. Dunn	 Group B C.A. Jagels J.D. Smith L. Fitzpatrick T. Walsh	Eliminated Will be deposited with Cash Custody Division.
	30. Govt. Bond Dept. (Sorting) Group A F. Gascoigne H. Schauer S.C. Merwin	 Group B C.A. Jagels H. Mackenzie G. McCann	Eliminated Will be deposited with Cash Custody Division.
	31. Govt. Bond Dept. (War Savings Stamps) Group A A.A. Nichols F. Savale S.C. Merwin	 Group B C.A. Jagels L. Seifert C. Stanley J. Canfield	Eliminated Will be deposited with Cash Custody Division

Membership	Present		Proposed
Special Groups Lower dial interior compartments	32. Liberty Loan Assn. Department Group A H.C. McGowan F.C. Roche M. Crosby	 Group B J. Traver F. Dallimore S. Eddy	Eliminated Will be deposited with Cash Custody Division.
	33. Loan Dept. (Loan & Disc. Div.) Group A C.N. Van Houten H.W. Stanley R.M. Morgan	 Group B R.F. Cutler W. Cokelet H. D. Snyder	Eliminated Will be deposited with Cash Custody Division
	34. Securities Department Group A U. Wells G. Stephenson L.W. Glover	 Group B K.B. Russell W. Valentine F.O Johnson	Eliminated Will be deposited with Cash Custody Division
	35. Securities Dept. (Govt. Deposit Div.) Group A J.G. Manchester, Jr. J.R. Cook H.C. Low, Jr., G.W. Snedeker	 Group B W.H. Conover E.D. Hassard E. Vollweiler J.M.B. McCubbin	Eliminated Will be deposited with Cash Custody Division
	36. Service Dept. (Employment Division) Group A Joseph Farnon H.B. Long R.V. Brown	 Group B R.R. Apgar E.C. Rink G. Shannon	Eliminated Will be deposited with Cash Custody Division
	37. Service Dept. (Office Ser. Div.-Files) Single combination compartment		Eliminated Will be deposited with Cash Custody Division.
	38. Govt. Bond Dept.(Incoming Mail Sec.) Group A J. Hoffman R. Gatlin S.C. Merwin W. Griffiths	 Group B I. Ross J. Golden C.A. Jagels J. Baker	Eliminated Will be deposited with Cash Custody Division

FEDERAL RESERVE BOARD

WASHINGTON

September 22,1920.

X-2013

CONFIDENTIAL

Dear Sir:

There are enclosed herewith copies of confidential instructions issued by the Secretary of the Treasury under date of August 30th, 1920, with respect to Federal Reserve Banks, making exchanges, replacements and redemptions of United States paper currency.

The Federal Reserve Board understands from previous communications that your bank is in a position to take over the additional functions immediately. Kindly advise the Board of the exact date as soon as determined when your bank will commence these new currency operations in order that the Treasurer of the United States and Assistant Treasurers concerned may be notified.

The Secretary of the Treasury has authorized the following statement by him to be used by Federal Reserve Banks in making their announcements of the assumption of these new operations in United States paper currency, to banking institutions in their Federal Reserve Districts together with such local statement of regulations as may be necessary:

> " In anticipation of the discontinuance of the several sub-treasuries prior to June 30, next, as directed by recent legislation, the Secretary of the Treasury has authorized and instructed Federal Reserve Banks, as facilities are present, to undertake exchanges and replacement of United States paper currency. And further, in order to furnish improved facilities for the public and in order to establish as equitable a distribution as possible of United States paper currency fit for circulation, the Secretary has directed the Treasurer of the United States hereafter not to make direct shipments of currency fit

for circulation to remitting banks, but to transmit a credit to the appropriate Federal Reserve Bank, which bank shall make appropriate shipment. It is believed this procedure will result in improving the general situation throughout the United States not only with respect to the condition of the paper currency, but with respect to the shortage of notes of small denominations now existing in many sections of the country."

Very truly yours,

Governor.

Enclosure.

To Chairmen of all F.R. Banks EXCEPT RICHMOND CHICAGO AND DALLAS.

X-2014

"PRESENT CONDITION AND FUTURE PROSPECTS OF THE AUTOMOTIVE INDUSTRY FROM THE STANDPOINT OF THE FEDERAL RESERVE BANKING SYSTEM."

Address by

W. P. G. HARDING

GOVERNOR, FEDERAL RESERVE BOARD

before

THE MOTOR AND ACCESSORY MANUFACTURERS ASSOCIATION

at

CLEVELAND, OHIO

September 16, 1920.

"PRESENT CONDITION AND FUTURE PROSPECTS OF THE AUTOMOTIVE INDUSTRY FROM THE STANDPOINT OF THE FEDERAL RESERVE BANKING SYSTEM."

It is a great pleasure to me to have the privilege of addressing the representatives of the credit department of one of our major industries. I am glad to have the opportunity of stating some facts to you which I think ought to remove any misapprehension that any of you may have as to the policies of the Federal Reserve Banks and of the Federal Reserve Board. I know that some people have had an idea that the policy of the Federal Reserve System for several months past has been one of repression and of restriction. I am not going to burden you with a long arrey of figures this afternoon. I have already made one speech today from notes in which I went very thoroughly into detail. That may be printed a little later on and you can get all of the figures you wish from that. But I merely want you to know that instead of there having been any contraction in credit or in currency during the past twelve months or at any time during that period with the exception of about two weeks in January and about two weeks in July, there has on the other hand been a steady increase in the volume of bills discounted by Federal Reserve Banks and of loans made by member banks, as well as a considerable increase in the volume of currency represented by Federal Reserve notes in circulation.

The net increase from September 1st, 1919, to September 1st, 1920, in the volume of Federal Reserve note circulation was about six hundred and thirty millions of dollars, of which amount three hundred and sixty million dollars represents the increase since the 23rd of January last when the Federal Reserve Bank discount rates were advanced to approximately their present level.

During the twelve months there has been an increase in the commercial bills discounted by Federal Reserve Banks of about one billion one hundred and forty-six millions of dollars. There has been a decrease in the amount of paper discounted for member banks secured by Government obligations so that the net increase in the loans and advancements of Federal Reserve Banks to their member banks for the twelve month period ending the 1st of September has been about eight hundred and ten millions of dollars. The increase in the loans of member banks, as gauged by figures furnished by eight hundred and nineteen banks which make regular reports every week to the Federal Reserve Board, has been during the same time about eleven hundred million dollars in commercial paper and the net increase in the accommodations for those eight hundred and nineteen reporting banks which represent all of the important member banks in the Federal Reserve and Branch Bank cities and clearing house cities of the United States, has been about seven hundred and fifty-five million dollars. The resources of those banks represent between sixty-five and seventy per cent of the resources of all member banks and between thirty-five and forty per cent. of all commercial banks in the country.

The credit situation has materially improved since last spring. That improvement is manifest not so much in the figures shown because, as I have already said, there has been no reduction in the loan account either of member banks or of the Federal Reserve Banks. On the other hand there has been a greater expansion in bank credit and in currency in circulation as represented by Federal Reserve notes during the past twelve months than there has been at any period in the history of the country, with the exception of the twelve month period from September, 1917, to September, 1918, when we were in the midst of the war; but the improvement lies in the greater liquidity of the assets of the Federal Reserve Banks and of the member banks.

The Federal Reserve Banks are the custodians of the ultimate banking reserves of this country. The law has been changed so that no member bank can count as reserve any gold or lawful money or currency that it has in its own vault. No member bank is required to keep any specified amount of currency on hand. That is a matter that is left entirely to the determination of each bank. The lawful reserves are the collected balances with the Federal Reserve Banks.

In the various crises which this country has experienced in the past, and we have had some very serious times, such as 1873, 1893 and 1907, the years of the major panics, we had Europe to fall back on. Then our banks were able to sell finance bills and to bring in gold. The panic of 1907 was relieved by the use of finance bills and by the export of goods which were paid for in gold, so that while we had acute panic conditions the latter part of October and the first of November in 1907, we had a period of extreme ease of money by the latter part of January, 1908. That was due to the importation of gold and to the subsidence of panic conditions.

You all know better than I can tell you the condition of Europe due to the four years and a half of the most destructive war in history. You are familiar with the destruction not only of human life, but of the capital, of the real property and of the liquid wealth of the world. You know what the expansion of credit has been in Europe on account of war conditions and the destruction of capital, and you know that most of the countries of Europe are no longer on a gold basis. They have a depreciated currency. Their exchange has declined to minimum figures, in many cases five to ten percent, of their normal parity, so that today the Federal Reserve Banks stand as the final resort of credit not only in this country, but throughout the world.

It is very necessary to keep the Federal Reserve Banks, particularly in these circumstances, in a strong, sound, clean position. The strength of the Federal Reserve Banks may be measured, not altogether in the amount of gold held by them as reserve against their liabilities,- note issues and deposits, but as well by the liquidity and inherent soundness of their invested assets.

I do not minimize the importance of a gold reserve; for a gold reserve is the very foundation stone of any sound financial system, but I do not hold that the maintenance of any specified minimum reserve at all times is absolutely necessary. The main point is that if the demands of business, of agriculture, commerce and industry in this country along essential lines demand certain seasonal or extraordinary accommodations for the common good, they should be granted even though the reserve might fall to a point below normal or below the figure prescribed by law, for the law does not limit the use of these reserves under certain conditions and penalties.

But the point I wish to make is that any low reserve position at the Federal Reserve Banks caused by any temporary strain or emergency should not be regarded as a normal base from which future emergencies must be met. Whenever the reserve falls we must take action to build it up again.

We had a meeting in Washington, on the 18th day of May last, with the members of the Federal Reserve Advisory Council, the Federal Reserve Board and the Class A directors of Federal Reserve Banks.

We discussed credit conditions very fully. At that time we had just passed the peak of one of the wildest periods of extravagance and speculation this country has known in a long time. We found that not only had there been an abuse of credit for non-essential purposes to meet extravagances of various kinds, but that commodities produced on the farms last year were being held back, partly of necessity on account of lack of railroad facilities, and partly in the hope of getting higher prices, which tied up a vast volume of credit. We were looking forward to the seasonal movement of crops, the crop moving season into which we have now entered, and some concern was felt as to our ability to meet safely and effectively the legitimate demands which were going to be made on the banking system during the next few weeks, unless we put some restraining influences into action to stop undue use of banking credit. After talking the matter over we decided that banks generally should be cautioned to use a more discriminating judgment in granting credits and that they should give preference to loans of an essential character rather than to those of a non-essential character. We felt then and we feel now that the advice given was sound, and that the country has been very greatly benefited by the action that was taken. The Federal Reserve Board however has distinctly declined to give any definition of essential or non-essential loans. When you think about it, you will realize what an exceedingly difficult thing it would be for any board of seven men sitting in Washington to undertake to define by any rule of countrywide application what is an essential industry and what is a non-essential industry, and what is an essential loan and what is a non-essential loan. We stated then and I repeat today that the Federal Reserve Board will not undertake to give any definition of essential and non-essential loans. While a Federal Reserve Bank is in better position to undertake such a definition than the Federal Reserve Board is, still we feel that a Federal Reserve Bank itself will better conduct its business under the provisions of Section 4 of the Federal Reserve Act which require the directors to administer the affairs of the Bank fairly and impartially, and without preference to any bank or group of banks, and in extending its accommodations to make such loans as may be "safely and reasonably made" to member banks "with due regard to the wants and requirements of other member banks". That means that the directors should not permit any member bank for the purpose of unduly extending its business to receive an undue volume of rediscount accommodation at the Federal Reserve Bank particularly when these extended credits to a few banks might impair the Reserve Bank's ability to meet the legitimate demands of other member banks. The matter of granting loans to the individual or to the firm or corporation is one which is entirely in the hands of member and non-member banks with which these individuals and corporations deal. The Federal Reserve Board has no discretion, nor has the Federal Reserve Bank any discretion in the matter of a loan which a member or non-member bank may wish to make or decline. If the bank is a national bank, it is governed by those sections of the revised statutes of the United States which are commonly known as the National Bank Act. If a state bank, it is governed by the laws of the state and by the rulings of the state banking department. Neither the Federal Reserve Board nor the Federal Reserve Bank has any jurisdiction at all over the loan transactions of commercial banks. What the Federal Reserve Board and the Federal Reserve Banks are concerned with is to keep the assets of the Federal Reserve Banks in a clean, sound, and healthy condition, having as much paper of a liquid character as possible to be paid at maturity so that if the occasion should arise to make it necessary to use the reserves in order to meet some unusual emergency or some unusual seasonal credit requirement, they can do so.

But while we have never undertaken to define essentials, I think it is axiomatic, and that all will concede that there are four great fundamental essentials; - food, fuel, clothing, shelter; and in order to provide these necessities, transportation looms up as an absolutely important factor. Now, the problem before an individual bank in granting credit seems to be very much simpler than that which would confront a Federal Reserve Bank if it undertook to grant credit along essential and non-essential lines, and far simpler than that which would confront the Federal Reserve Board if it should undertake to make any ruling that paper should be discounted or declined with reference to its essentiality or non-essentiality.

In the first place, some loans are essential at certain seasons of the year when they might not be essential at other seasons of the year. Take the canning industry, for instance, and the cold storage industry also. Along in June and the early part of July a great many of the small crops come in which ought to go in cold storage or to the canneries. These industries have occasion then to use the banks to get large credits in order to pay the farmers for the products that they use. Now, it is perfectly reasonable for the cold storage industry or the canning industry to use money and credit, not only for their own benefit, but for the common good, at those seasons of the year, while, if the same industries should undertake to come in December and January to borrow large sums of money, any bank to which they should apply might well put them on inquiry as to the purpose of the proposed loan, because if loans are granted to cold storage concerns or canneries for the purpose of holding back for higher prices goods that the market is ready to absorb and that ought to go on the market in order to meet the requirements of the public, we should say that common sense would tell the banker that such a loan at that time would be unessential.

The whole question is a local matter. By leaving the member banks and the non-member banks entirely free to use their own judgment in granting loans, they are not bound to take our advice if they do not want to; the only thing that can be done is for the Federal Reserve Bank to say, "We think we have discounted enough paper for you. You do not seem to be very careful in the matter of holding your loans in check, and we are going to give you a certain line and we are not going any further;" that is as far as the Federal Reserve Bank can go because the Federal Reserve Bank is not allowed by law to deal directly with the public, with the exception of transactions in bankers' acceptances which the Federal Reserve Bank may buy either with or without the endorsement of a member bank, and those acceptances have to meet all the requirements of eligibility which the law imposes upon paper offered for discount by member banks; the Federal Reserve Bank can only re-discount paper when endorsed by a member bank; it does not have any general dealings with the public. Now, please bear this in mind, that any member bank is entirely free to use its own discretion in the matter of a loan. If a member bank wishes to carry out the policies suggested by the Federal Reserve Board, it would naturally apply the test to its own community because a bank is supported by the community in which it is located. It receives its deposits from that community. It is there to serve that community. It will grow or decline as the business of that community improves or retrogrades.

There are certain industries in this section of the country which you may well deem as being highly essential. They support a great population. They make business for other lines of industry and you are perfectly reasonable in regarding the business as highly essential and your member banks are entirely justified in making loans to support local industries, while banks located in other sections which have no such industries, but have other industries of an entirely different character dependent upon them may take the view that some particular loans which are highly essential here are not essential with them, and vice versa.

For instance, you would not regard here in Cleveland loans based on salt water fisheries as essential because you have a fresh water lake here and you do not have any salt water fishery business. Yet in other sections of this country those would be regarded as highly essential loans.

The whole question, therefore, of the essential and non-essential character of a loan is left for individual determination by each member bank.

I know that the business in which you are interested experienced a very great expansion in the months that followed the war, and I presume that some of you will admit that people in some cases bought the things in which you are dealing on credit who had no business using their credit in that direction. I have been a banker and if I were a banker today, this would be my policy, regardless of whether this industry was essential to the particular locality in which I might be located,-I would look out for my good customers. If a dealer in automobilesbrought a lot of paper to me for discount, if I were satisfied with the solvency of the dealer, with the value of his endorsement, if he did not wish an excessive line of credit, out of proportion to the average balance carried with me or out of proportion to the credit which I might feel I should grant to merchants and other lines of industry which were dependent upon my institution for credit support, I would take his offerings. If on the other hand, I felt that he was disposed to do too large a business for his capital and was undertaking to get from me, for the purpose of further expanding his business, an unduly large line of credit, I would hold him down under any circumstances. In that case, I would scrutinize his paper more carefully - If I found that he offered the paper of a man with whose credit standing I was perfectly satisfied, whom I knew was able to pay his obligation at maturity, I would take it. If, on the other hand, he should offer a paper of a man who had no credit rating, no responsibility whatever, who had merely bought an automobile, paying probably ten per cent. in cash and wanted to give his note for the rest, I would decline to take that paper because I would doubt the maker's ability to pay it. Certainly a well managed bank does not want to become a dealer in second hand automobiles.

This is the whole proposition. There hasn't anything been done by the Federal Reserve Board and in most cases nothing has been done by any Federal Reserve Bank that reflects in any manner upon one of the greatest industries of this country. It would be a very serious thing for any body of men to undertake to make an attack upon, or to destroy a business that is as firmly rooted and which has so many of the elements of essentiality as your business has, and I want to assure you that as far as the Federal Reserve Board is concerned, no such attempts have been made.

A great many letters have come to me from various sections of the country, making all kinds of complaints. I find in a number of cases there has been a misunderstanding about the facts, and I shall read you a letter by way of illustration.

We had a complaint some time ago that a western representative at Portland, Oregon, of a motor truck company in Detroit had been informed by the bank with which he dealt in Portland that he could no longer receive any credit from that bank; that it was not going to discount any paper for him, and gave as a reason that the Federal Reserve Bank of San Francisco had notified it that it must not take any paper of that character. I very much doubted that the Federal Reserve Bank of San Francisco had undertaken to dictate or to go beyond its powers in dictating to any member bank what paper it should discount or what it should decline to take. I telegraphed the Bank and I got a firm denial from the officers of the Federal Reserve Bank of San Francisco. They said, "We have given no such instructions. We have never asked anybody to take our judgment on the paper that they should take. We exercise our own judgment in what we should discount."

They took it up with this particular member bank and here is the reply -- A letter received by the chairman of the Board of Directors of the Federal Reserve Bank of San Francisco from this particular member bank in Portland, Oregon"--the San Francisco bank says, "You are respectfully informed that this bank has at no time called upon its member banks to restrict the financing of automotive concerns. A telegram from the Standard Motor Truck Company states its western representative reported that the vice-president of the bank in Portland had informed him that the Federal Reserve Bank had requested such restrictions. I wired the vice-president of this bank, asked if he had been correctly quoted, and if not, please advise me what foundation he had for his statement. I am just now in receipt of his reply as follows: 'Answering your wire of September 8th, I absolutely deny having made any such statement. We have been and are now financing responsible automotive concerns.' "

I know of a great many cases s.l similar to this. I think the whole misunderstanding is due in very large part to the reluctance on the part of some good bankers to say "no." You know there has been a credit strain all over the country, that bankers are continually being asked to make loans that they feel they ought not to grant, and yet comparatively few bankers have the knack of saying "no" without giving offense. Banking, as you know, is a highly competitive business. The average banker is very much averse to offending any customer. A bank dislikes to lose an account even an account that is regarded as an excessive borrowing account. It looks back in the ledgers and it finds that a few months ago or a few years ago this particular account was not a borrowing account, but kept a large deposit, and it never knows when it is going to become a large deposit account again. So that the primary consideration of nearly all banks in declining loans is to avoid giving any offense. We all know that under present conditions we have a lender's market rather than a borrower's market. Banks have no trouble in keeping their funds employed. They probably have a dozen applications for loans to every one that they really wish to grant, and I know in some cases, because I have traced it down, that where a bank receives an application for a loan which it has no intention of granting, it follows the lines of least resistance. The routine is about like this: The bank officer says to the customer who comes in and wants accommodation, "Well, Bill, old man, I would like the best in the world to accommodate you. You have kept a good account with us in times past and I would really like to help you, but you know the Federal Reserve Board won't let us."

That is a very easy way of "passing the buck," but it is hardly fair to the Federal Reserve Board. It has caused me a great deal of extra work in answering telegrams and letters, asking how about it, and I want it distinctly understood that the Federal Reserve Board has never attempted to go beyond its lawful powers which are clearly defined in the seventy pages known as the Federal Reserve Act. We have not undertaken to dictate to any bank what loans it shall make or what it shall not make.

We have merely suggested as a policy in the best interest of the various communities in this country that each bank should exercise its judgment and support more particularly the local industries which are dependent upon it, which have no general credit, and that if it has to limit its loans, it discriminate in favor of those particular . industries which in its judgment are essential and which are necessary for the support and upbuilding of the community in which the bank is located.

If you will take the figures to which I have referred, and analyze them, you will see that there has not been in any section of the country any contraction of loans in the aggregate. I think you will all agree that there was a general spirit of extravagance in this country late last year and early this year, which was unhealthy. We all know that one of the most potent causes of disaster in manufacturing or commercial lines is over-production at high costs on expanded bank credit because sooner or later the time comes for liquidation, and liquidation under those circumstances is a very unpleasant process and is liable to bring about disastrous results.

I can refer you to what happened in Japan. Early in the present year there was just as wild a boom, just as wild a period of speculation and extravagance in Japan as we had here. Silk is the main industry there. At one time last February and March, in spite of the warnings issued by the banks in Japan early in January to slacken up, silk had advanced to fifty-six hundred yen per bale, a yen being about fifty cents in American money, and that represented a value of raw silk of about eighteen dollars a pound. You may remember the overalls movement in this country last spring. This reflected the change in the buying attitude of the public. For some time it had been regarded as a smart thing to pay thirty dollars for a silk shirt or twenty-five dollars for a pair of shoes. People began to look around and to shop a little to see if they could not get more for their money. The result of it was that silk shirts declined from thirty dollars each down to eight and ten dollars, and the demand even at those figures fell off. The same thing happened in shoes and in clothing. This indicates the change in public sentiment regarding extravagant purchases.

What happened in Japan was that all of a sudden the price of silk fell from fifty-six hundred yen per bale down to about sixteen hundred yen per bale, and that brought about the failure of a great many important concerns engaged in the manufacture and merchandising of silk, which caused the suspension of seventy-four Japanese banks.

As a result of the policy that the Federal Reserve System has adopted, we have passed out of this period of exhilaration and intoxication, you might say, when money came easy and went easy, and there is now a more careful spirit manifested in this country. People are taking a little more critical view of what they are buying. They are consulting their own requirements more closely, and they are restraining themselves from certain extravagances. Certainly this makes for a better condition of affairs and argues well for permanent business. Our American institutions are permanent. I am an optimist on America. I do not believe that what we want to do is to maintain boom conditions here just for this season. Aren't we going to be in business next year and the next, and so on? We must look ahead for the future. We do not want to take too much of a chance merely for the sake of continuing a wild boom and having abnormally good business conditions over a period of two or three months and then have a collapse that may take us years to recover from. Why not come back to a normal and more sensible, and orderly basis than that? That is our whole idea.

The expansion in loans which is noted at the present time is due very largely to the crop moving requirements. The crops this year are unusually bountiful. Some authorities estimate their value as high as twenty-two billions of dollars. The Federal Reserve System has ample resources to enable it to furnish member banks with all the necessary assistance to move these crops and move them in an orderly manner. In due course the crops will be moved, for I am glad to say the railroads are functioning better now; and instead of getting twenty-one miles a day as an average for a freight car they are working toward thirty miles a day. This means increased efficiency in the movement of freight and is just as effective as though we had added that proportion to the number of freight cars in use.

Business generally is looking forward and I think with reason, to a period of healthy activity. I feel that we are on a very much firmer foundation in every way than we were seven or eight months ago, and I believe that if you keep your heads and do business along safe and conservative lines, bearing in mind that most of you are young men, who have plenty of time ahead of you, bearing in mind also that you want to do business in the years to come; that you do not want to concentrate all your energies to "mopping-up", as you may say, during the next two or three months, and then retiring, taking all of the chances that are incident to an undue and unjustified expansion, you will all feel better if you go along at a more moderate gait, and on a safer basis, with a view of having good normal business next year and the next year, and so on indefinitely.

There is no occasion, gentlemen, for me to detain you any longer. I want to assure you that the Federal Reserve Banks and the Federal Reserve Board are keenly alive to the requirements of business in this country, and that it is our purpose to do everything that ought to be reasonably expected of us to assist the member banks in furnishing all reasonable accommodations to their customers, and that the member banks are the sole judges of their own credits.

FEDERAL RESERVE BOARD

WASHINGTON

X-2015

Dear M___

In accordance with the plan of classifying and rating employees of the Board, made effective July 1, 1920, there is enclosed herewith a notice of your rating and relative standing in classification as based upon this rating, and your salary as of October 1, 1920, as approved by the Federal Reserve Board.

Very truly yours,

W. T. CHAPMAN

Secretary.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS X-2016

For release in morning papers,
October 1, 1920.

September 29,1920.

The following is a review of general business and financial conditions throughout the several Federal Reserve Districts during the month of September, as contained in the forthcoming issue of the Federal Reserve Bulletin.

Continuance of the process of readjustment in business and industry, with progress toward a more stable condition, accompanied by price revisions and by the resumption of work in some branches of industry where hesitation as to future outlook had led to suspension, have been the outstanding features of the business and economic movement during the month of September. After an apparent slowing down in the price reduction movement during midsummer, it has again reappeared and the past month has seen substantial cuts in well-known automobile makes, textiles of various classes, shoes and leather goods, and in other wholesale prices. Reductions have occurred in a variety of staples including wheat. Changes in prices have tended to make business men and bankers cautious about future commitments. Accordingly, as has often been observed in the past during periods of business readjustment, business is now being done upon a shorter term credit basis than is normal, pending clarification of the current process of readjustment. Excellent crop yields have resulted in sustaining buying power, while improved movement on the railways has given assurance of steadier and earlier marketing than has been believed possible. Banking conditions in several districts have decidedly improved and from some it is reported that business enterprises are working into a position to finance themselves to a greater degree by reducing inventories and by exercising more careful scrutiny over credits. The crop moving process has gone ahead on the whole smoothly; and the peak of the demand for funds has practically passed without serious inconvenience and with no prospect of an increase of difficulty. On September 25th the reserve ratio for the Federal Reserve System as a whole stood at 43.6 per cent, as compared with 43.2 per cent on August 27th. Speculation, both in commodities and in securities, has been at a relatively low level and there has been a gratifying diversion of banking funds to the service of productive industry in many lines. From various Federal Reserve Districts improving conditions and growth of optimism are reported. There is indication that business conditions are now definitely on the road toward stability of as great and confirmed a nature as the disturbed position of the world at large will permit.

In District No. 1 (Boston) "New England industries and trade are still feeling their way cautiously but with confidence toward the objective of stable business and financial conditions." Uncertainty is apparently due almost wholly to the price situation. Markets for raw materials have undergone no substantial change. There is partial resumption of manufacturing activity and a hopeful outlook in retail trade. A more optimistic feeling exists than was present last month.

In District No. 2 (New York) the Reserve Bank ceased to be a lender to other Federal Reserve Banks, became a large borrower from them, and then very recently repaid those borrowings in full, thus reflecting changes in money conditions in the District. Improved railroad operation has resulted in much better marketing of goods. "A notable change appears to have taken place in the efficiency of labor," twenty-one out of thirty-one of the largest corporations in the country reporting improvement, while none report any decrease. Stock market conditions have partially recovered, corporate financing has fallen off, European exchanges have continued weak, and price declines have gone further than a month ago. Some reductions in manufacturing activity are reported.

In District No. 3 (Philadelphia) " a material improvement in transportation * * * has taken place." Readjustment of textiles to post-war conditions is still proceeding. The banking situation is sound. "The labor situation grows more reassuring as time goes on," while "retail trade has continued active and it is expected that a large volume of fall and winter business will be done."

In District No. 4 (Cleveland) there has been some improvement in banking conditions accompanied by "liquidation of frozen credits," an increase in demand for acceptances, marked improvement in transportation and shipping conditions, but a falling off in new business, in all quarters of the iron and steel market.

In District No. 5 (Richmond) "reports indicate improving conditions in labor fields and transportation, with evidence of a downward trend in many prices. Complaint of tight money is general, but on the whole efforts of banks to restrict loans to necessary work is commended." Slackness of new business and continued work in factories on accumulated back orders represents the situation in the textile field as well as in some others.

In District No. 6 (Atlanta) the crop moving season is entered "with no cause for alarm." No anxiety is being felt for the financing of the current crop. Caution is being exercised in many lines on account of price changes. Deterioration in the cotton condition indicates the probability of a reduction in yield. A serious situation has developed in the Alabama coal mines, but iron and steel production "is reported as very satisfactory."

In District No. 7 (Chicago) it is stated that "primary wealth, which has been vastly increased * * * by the magnificent crops of 1920, is contributing much to the stabilization of economic conditions in the process of business readjustment * * *" "There is still sufficient in the existing situation to call for the continuation of conservatism." There is a general belief that serious transportation troubles are over and while some signs of slowing down in a number of industries are noticed there is improvement in the labor situation and growth of optimism in manufacturing.

In District No. 8 (St.Louis) "the predominating trend is in the direction of further readjustment, but the processes involved in this change have been gradual and orderly enough to produce only minor disturbance in business and finance." Price declines have taken place but they have been sporadic. The public is still in need of goods and has strong purchasing power. Merchandise, however, is more abundant. "Agricultural results in the District continue the basis for optimism." Fuel conditions show improvement.

In District No. 9 (Minneapolis) price declines have been quite general. A falling off in earlier crop estimates places the expected production (combined) of wheat, oats, barley, rye, corn and flax at 822,000,000 bushels, a decline of about 34,000,000 bushels from the predictions of a month ago. This decline has "not been large enough to undermine business confidence." Effort is still being made to move grain more rapidly and the fuel situation is still a problem.

In District No. 10 (Kansas City) there is "good progress toward a return to normal conditions." Exceptionally large crops are being harvested.

Production has about caught up with demand and there is less difficulty in obtaining supplies of manufactured goods. The demand for money and credit continues strong and sales of merchandise by wholesalers to retailers and by retailers to consumers have advanced somewhat.

In District No. 11 (Dallas) the credit situation shows but little change. There is "a spirit of unyielding optimism" and trained authorities are counting strongly upon a heavy fall business. Cotton harvesting is making good progress. Transportation has shown improvement, but retail trade is still quiet.

In District No. 12 (SanFrancisco) favorable crop conditions are prevalent, harvesting is making good progress, and business generally "while indicating the hesitancy natural under present revisions in wholesale prices of numerous commodities, is reported to be satisfactory and sound." Failures are fewer, labor fully employed, and strikes or disturbances unimportant.

The Government crop report for September 1 showed an increase in the estimated production of corn and oats of 128,000,000 bushels and 40,000,000 bushels, respectively, over the August 1 estimate, both figures being above the five year average, while there was a decrease of 24,000,000 bushels in the estimated production of spring wheat and the figure is below the five year average. Harvesting is generally making good progress.

In District No. 9 (Minneapolis) expected grain and flax production, as estimated by the Federal Reserve Agent is 34,000,000 bushels less than estimated about a month ago, an increase of 19,000,000 bushels for corn being more than offset by decreases in all of the other cereals. The figure for wheat shows a decrease of about 7,000,000 bushels in each of the four States of Minnesota, North and South Dakota and Montana, in the last of which a decrease in all of the grains is noted. The hay crop throughout the District has been large and satisfactory. In District No. 10 (Kansas City) the September government estimate increased the figure for corn by 66,000,000 bushels and the figure for oats by 4,000,000 bushels. "Moderate to heavy rains, accompanied by much cloudiness and low temperatures" during August and the first half of September resulted in a continuance of the growth of vegetation from two to four weeks later than usual, but retarded the threshing of the 1920 wheat crop, more wheat being stacked than usual, and has delayed the preparation of seed beds. In District No. 7 (Chicago), Iowa has "never had such a corn crop" and in the District a considerable percentage has gone or will go into silage. In District No. 8 (St. Louis) the combined condition of all crops on September 1 was 106.03, as against 103.4 on August 1, and "fall farm operations have been pushed on an unusually large scale." On the Pacific Coast "favorable crop conditions continue to prevail." Harvesting of grain and picking of remaining fruits are in progress, reports of good yield, both in quantity and quality, are in the majority, but the price outlook is uncertain. Higher prices prevailed for tobacco at the opening of the South Carolina markets in August 1920 than during August 1919, but North Carolina opening prices were "keenly disappointing to the growers." It is stated that some manufacturers are still carrying considerable stocks of leaf tobacco, while farmers planted in expectation of continuance of last year's active demand. Excessive rainfall during the early part of September has done more or less damage to the Kentucky burley tobacco crop.

In District No. 11 (Dallas) "excessive rains and the decline in the cotton market which occurred in August created for a time widespread pessimism among the cotton growers and not a little apprehension on the part of business and financial circles." Improvement, however, is noted since the commencement of a period of clear weather about September 10. Deterioration was noted up to that time in North and East Texas, but in South and West Texas "a good yield seems to be assured." Efforts are being made in the District to perfect an organization of growers, the majority apparently being in favor of a plan for gradually marketing the crop throughout the year, and preventing general dumping of cotton in advance of active demand. Harvesting, while delayed on account of wet weather, is now making good progress, but there is some scarcity of labor for picking. "Marked deterioration" in the condition of cotton was also shown in the August 25 report for District No. 6 (Atlanta) in all states except Tennessee, where the decline was only one point. Weather conditions in many sections have continued unfavorable and the boll weevil is active. It is stated to be "fairly certain" that the crop in District No. 8 (St.Louis) has gone backward since the August 25 report, but "prospects are still good" and "less apprehension is felt just now relative to yield than to ultimate prices and movement of what remains of last year's crop."

In the live stock industry reports from all sections of District No. 10 (Kansas City) state that "live stock is in excellent condition, that animals on farms and ranges are generally free from disease, and that there is an over-abundance of feed for fall and winter and for months to come." In both that District and in District No. 11 (Dallas) rainfall has been sufficient to put the ranges in excellent condition. It is stated from the latter District that "the present condition of live stock and ranges in all parts of the District is exceptionally good, and prospects for an abundance of winter feed were never more encouraging." A strong movement of stockers and feeders to farms and ranges is noted in the Kansas City District, although some nervousness is exhibited on the part of farmers over the future of prices, and indecision as to the extent of feeding to be done. An increase in the movement of stockers and feeders from the South St. Paul market is reported. Receipts of cattle and calves for fifteen western markets during August were 1,459,056 head, corresponding to an index number of 145, an increase over the figure for July, which was 1,188,019 head, corresponding to an index number of 118, but less than the figure of 1,541,133 head, corresponding to an index number of 153, for August, 1919. Receipts of sheep at these markets show similar changes, being 1,688,719 head during August, as compared with 1,301,458 head during July and 2,220,229 head during August, 1919, the respective index numbers being 124, 95 and 162. Receipts of hogs, however, declined from 2,115,639 head in July to 1,818,245 head in August, corresponding to index numbers of 96 and 83, as compared with 1,595,759 head during August, 1919, corresponding to an index number of 73. Cattle receipts at six leading markets in the Kansas City District were the largest this year, with the exception of January, although much lighter than anticipated, "the supply of calves was the heaviest ever yarded in one month," the supply of hogs was moderately heavy, while sheep receipts were uneven, though the broadest demand of the year developed for feeders to ship to the country. The preponderance of grass cattle resulted in frequent breaks in prices, while there was weakness in prices of medium and common grade hogs. Livestock markets in the Dallas District were again dull, demand being small, although August cattle receipts were 35 per cent less than those for July, and "beef steers, calves and butcher cows showed a steady depreciation throughout the month of August." The recent declines in hide and wool prices, it is stated, "may be plausibly cited as an important factor in the present prices of cattle, sheep and lambs."

The movement of grain to market has been less than the extremely heavy movement last year. Crop marketings in District No. 10 (Kansas City), while "somewhat reduced from the abnormally heavy marketings at this time last year, were sufficient in August for trade requirements." While "the transportation service is still far from adequate, there is less complaint of car shortage, delayed freight and congestion at terminals," and "a freer movement of all freight is reported." Car shortage and a determination on the part of growers to hold the wheat on the farms instead of selling at prevailing prices are said to have curtailed receipts. Grain receipts at Minneapolis during August showed an increase of 32 per cent over July, due to increased barley and oats receipts, although corn and flaxseed receipts decreased. The total figures were, however, only two-thirds of receipts a year ago, and the falling off is ascribed to wet weather delaying threshing in some districts, car shortage in a few instances, a desire to go ahead with plowing, and a desire in some sections to hold grain for possible higher prices. The Northwest, it is stated, has not received the number of empty grain cars which were promised. Receipts during the four weeks ending August 1 were 52.5 per cent and during the four weeks ending August 28, 61.2 per cent of the number provided in the Interstate Commerce Commission orders.

Flour production in District No. 9 (Minneapolis) during August was much less than both a month ago and a year ago, the decrease between the two four-week periods in July and August being 15 per cent. The flour situation in District No. 10 (Kansas City) was quiet during August, sales being scattered and mostly in small lots, as buyers anticipated lower prices.

The textile situation during the month has been of unusual importance in all of the producing districts. An outstanding event has been a reduction of 33 1/3 per cent by the Amoskeag Mills of Manchester, N. H., while the action of the American Woolen Company in cutting its prices from 15 to 25 per cent and resuming operations after a two months' shutdown establishes a new level of basic values in an important branch of the woolen industry. Corresponding reductions in the prices charged by important wholesalers and retailers in different parts of the country are tending to transfer the benefits of price reductions from manufacturers and wholesalers to consumers. In this connection the reductions made by the two largest mail order houses in the country are symptomatic of general conditions. Some lines of textile production are showing considerable depression on account of failure of demand to revive.

In District No. 1 (Boston) prices for raw wool have dropped slightly during the past month and there have been some sales, but not in large quantities, mostly domestic wool coming on a consignment basis.

Private sales of British wool have occurred and the stock is reduced to about 7,000 bales, while the government still has about 59,000,000 pounds left. The woolen and worsted goods industries in the district are stated to be "probably looking to the future somewhat more hopefully", but in spite of gratifying sales which it is represented that the American Woolen Company made as a result of price readjustments, "business in woolens is slower, possibly because of changing public preference for harder-faced goods, and the effect on the industry at large appears not to have produced as yet any general stimulus." Nevertheless, there is still an impression that stocks of dealers are low, and that a revival of activity cannot be indefinitely delayed. In District No. 3 (Philadelphia) "the entire woolen industry is showing signs of recovery," and a 25 per cent reduction for spring lines is bringing buyers into the market. Jobbers in an effort to force business here and there have been selling stocks at prices below recent quotations and some are now raising them again. Clothing manufacturers have, however, come into the market only slowly. The worsted yarn market is taking on a firmer tone. There is generally throughout the industry a rather better feeling and in some quarters machinery is being started up in the hope that it may be kept running, even though full time operation may not be possible for some weeks to come. On the Pacific Coast trading in wool has recently shown more activity than at any time since May when the decline in prices began. Many operators believe that the low level has been reached and that trading will be more active from now on. The estimated 1920 wool clip for District No. 12 (San Francisco) is 81,000,000 pounds, of which 24% has been sold, while the balance has been consigned to warehouses in Portland, (Oregon), Chicago, and Boston.

In cotton goods it is reported from District No. 1 (Boston) on the authority of local cotton brokers that "never in their experience has there been such an unsatisfactory situation in their line." The variations in prices for cotton of different grades have produced an irregular market and created a feeling of uncertainty. While New England cotton mills have in many cases been operating on full time, or nearly so, some are beginning to consider a curtailment policy. This curtailment is expected to grow further unless there is a turn for the better in the situation. For the month of August there was a consumption of 168,000 bales in New England mills, while the stock held in the mills was reported as 610,000 bales. Prices are quoted higher than a year ago in some lines, but this is not generally the case. In District No. 3 (Philadelphia) the raw cotton market continues weak with a like condition in cotton yarns. There is practically no demand for cotton yarns with quotations at from 50 to 60 per cent below the peak prices of the year. "The knit goods industry * * * is making no commitments." No demand for cotton goods exists and "production is at the lowest possible point." Cancellations in the cotton goods industry continue. Collections are far from satisfactory. In small wares there is a tendency to the reduction of prices. The level of values for men's shirts is moving downward. The outlook in the industry for the remainder of the year is entirely dependent upon the demand from consumers. Retailers are refraining from buying.

In District No. 5 (Richmond) it is believed that present prices for cotton are below cost of production, but despite the trade lethargy letters received are optimistic.

The boot and shoe situation is still passing through a transition stage. In New England it continues to feel the result of heavy cancellation of orders, but nevertheless the dominant note is one of optimism, though buyers are postponing the placing of orders as late as possible. Factories are operating conservatively, expecting to run for a while on shorter time or lower quantity of production, and under these conditions there has been an ample supply of labor for current operating requirements. The condition in most places has tended to bring about abandonment of demands for higher wages. The movement toward lower price levels is proceeding gradually. In District No. 7 (Chicago) the leather trade is feeling the effect of curtailment of automobile demand, while the tanning and shoe business "has been exceedingly dull during the past month, with tanners operating about one-half of capacity." In the shoe trade wholesalers and retailers are proceeding cautiously, "buying only for immediate needs." In District No. 5 (Richmond) shoes are moving freely but with more sanity shown in buying than in the past two or three years. In District No. 3 (Philadelphia) fall and winter shoes are on a retail price basis about equal to 1919. Shoe salesmen report rather limited sales, buyers being cautious. Manufacturers, however, see no prospect of an early decrease in price. Although leather has fallen off, other materials and labor have tended to advance. Manufacturing conditions are satisfactory but there is little improvement in the tanning industry and prices are irregular. There is fair business in leather belting. Conditions in other parts of the country are not materially different.

In the iron and steel trade the month has been a period of change. Production of iron and steel in August was the largest of any month in the present year, with the exception of March, and output has continued to rise steadily. According to District No. 4 (Cleveland) general reduction of accumulated stocks of iron and steel is reflected in the position of the Carnegie Steel Company which has reduced its yard piles to about 200,000 tons and of finished material to about 150,000 tons, a reduction of approximately 30 per cent from the high point. "Present steel stocks in the Mahoning valley are estimated at 100,000 tons." Coincident, however, with the increase in shipments "a material falling off of new business has been noted in all quarters of the iron and steel market." Consumers show greater caution. There is small future buying. However, with the exception of the automobile industry, "from which cancellations and suspensions of iron and steel have been received quite freely, the absorptive power of consumption appears to have been little altered." The decline in orders has been viewed by many producers without especial concern and they are welcoming the opportunity to convert their unfilled obligations. Railroad buying is developing slowly. Prices are showing no general weakness. The ore movement is improving, interior furnaces being much better supplied as cars are much more numerous. In District No. 3 (Philadelphia) the improvement in transportation conditions has been of great assistance to manufacturers in iron and steel, the accumulated stocks are being reduced, and demand for iron and steel and their products is still regarded as strong, although there is a diminution in new business. Reports indicate a marked falling off in foreign business. Bad conditions abroad and difficult foreign exchange quotations hurt the prospects of exportation. There has been a considerable decline in the output of structural steel. In District No. 6 (Atlanta) iron and steel production is satisfactory, car supply is better, production of pig iron in Alabama for the month of August was fully equal to that of July, activity at by-product plants in Birmingham has kept production up, cast iron pipe shipments are proceeding rapidly, and the market for scrap iron and steel is strong, with prices high and the demand steady.

The unfilled orders of the United States Steel Corporation at the close of August were 10,805,038 tons, corresponding to an index number of 205, as compared with 11,118,468 tons at the close of July, corresponding to an index number of 211. Steel ingot production shows an increase from 2,802,818 tons during July to 3,000,432 tons during August, the respective index numbers being 116 and 124. Pig iron production shows a similar increase, being 3,147,402 tons during August and 3,067,043 tons during July, the respective index numbers being 136 and 132.

In coal production there is a somewhat "spotty" situation. District No. 3 (Philadelphia) reports that the anthracite output has been decreased by the strike but is again about approaching normal. The cumulative production of anthracite coal from January 1, 1920, to September 11 was 59,160,000 tons as compared with 57,376,000 tons last year. In bituminous coal there was a reduction of output about the middle of the month of September, but a high daily average is being kept up. There has been marked improvement in car distribution. During the first 217 working days of this year the output was 369,000,000 tons as compared with 318,000,000 tons in the same period last year. Bituminous coal prices have eased off from the exceedingly high levels of recent times. In the Lake region it is reported from District No. 4 (Cleveland) that coal is moving better than a year ago.

In the Birmingham coal and iron district the strikes are having some effect in reducing the coal output, but the large iron and steel industries which own their mines, coal cars, etc. have not been affected. In District No. 10 (Kansas City) miners are at work in all of the fields of the district and "no strikes are now threatening," so that operators and dealers are more confident of their ability to supply the demand for coal in the fall and winter months. Taking the country as a whole, the production of bituminous coal for August was 48,389,000 tons as compared with 45,523,000 tons during July and 42,883,000 tons during August, 1919, the respective index numbers being 131, 123 and 116.

Metal mining during the period in question still shows some stagnation. The output of gold in California and Nevada continues to fall off on account of the low purchasing power of the metal. Silver mines in Utah and Idaho are working on a basis which will probably be slightly ahead of 1919. Higher prices of silver early in the year probably stimulated production somewhat as compared with present conditions. Copper from the Arizona region will probably be produced in larger volume than in 1919. Elsewhere there is no substantial change. The lead output in Utah and Idaho has been small but some mines which were idle are now resuming operations, so that the yield for 1920 may exceed that for 1919. District No. 10 (Kansas City) reports that in the Colorado district there has been very little change during the month of August, but the recent advance in freight rates has produced some discouragement, while increased costs of supplies may further lower production. Zinc and lead, however, have shown considerable improvement in August, both in the volume shipped and the price paid, in the Missouri, Oklahoma and Kansas fields. Shipments of zinc ores increased 20% over the preceding month and lead 12%, the average price of zinc ore advancing $1.00 and lead $14.00 per ton. Stocks, however, have increased about 2,000 tons during the month in spite of increased shipments. A car shortage continues to be a serious problem in the shipments of ore, while the new freight rates will result in an increased cost of $4.00 per ton for slab zinc.

The petroleum situation in District No. 10 (Kansas City) has been characterized by high production during August both in Kansas and Oklahoma. In the first eight months of 1920 these two States produced approximately 91,361,000 barrels of crude oil, as against 73,492,000 barrels for the corresponding months of 1919, an increase of nearly 25 per cent. Wyoming production is now approaching 2,000,000 barrels per month. On the Pacific Coast the average production of petroleum in August was 4 per cent ahead of that of July, but the stored stocks continued to decline, indicating heavy consumption. In District No. 11 (Dallas) oil wells showed an increased production. The total output during August was 12,343,886 barrels, a gain of 6 per cent over July. Several important wells have been completed. The price of crude oil has not materially changed in the Kansas City district, while gasoline continues in strong demand, with the supply limited.

The labor situation for the month has presented considerable variation. In the manufacturing regions employment has been less steady owing to short-time operations or suspensions in some quarters. In New England (District No. 1 Boston) it is reported that relations between employers and operatives in the leading manufacturing districts "would appear, on the surface at least, to be more harmonious than for some time." During the month agreements have been reached in various branches of the shoe industry. At Lynn and Haverill an arrangement which contemplates an amicable method of settling difficulties until May 1 has been partially agreed to, although official acceptance is still lacking. Unemployment, however, exists in various quarters. Wage increases are still to be noted here and there, the most conspicuous one in the Boston District being that accorded to street railway employees in Eastern Massachusetts outside of Boston. In District No. 3 (Philadelphia) conditions are improving and disputes are few. An increase in efficiency is noted. There has been dissatisfaction in the anthracite coal region because of the decision of the Wage Scale Commission, but many of the miners are now returning to work. In the middle west it is reported "from all parts of the district and all industries" that there is "increasing efficiency on the part of labor." This is coupled with an increase in supply. In District No. 8 (St.Louis) there are "further well-defined evidences of easier labor conditions." Unemployment, however, is slight, wages are steady, although there are sporadic reductions. The principal unemployment is in the factories. Strikes have decreased in number and several formerly in progress have terminated. Among the latter may be mentioned the furniture workers' strike in Evansville, Indiana which lasted about four months. In District No. 6 (Atlanta) disorders have occurred in the Alabama coal mines. Reports as to the number of men who are idle vary. The supply of farm labor shows improvement, although wages are high. On the Pacific Coast labor is well employed and there is little controversy. In District No. 2 (New York), although there were marked declines in employment in several branches of the metal manufacturing industries, as well as in textiles and clothing, the total average decrease was only 2 per cent, as between July and August. The most serious labor difficulty in the District has been the strike on the Brooklyn Rapid Transit lines, affecting several thousand employees. The average weekly earnings of factory employees show an increase. There has been a notable advance in the number of immigrants to the United States passing through the Port of New York. Those who entered in August numbered 57,874, while emigrants numbered 36,982.

The situation in the retail trade is essentially the same as last month. The volume of sales continues moderately large. Practically everywhere sales in terms of value are greater than those during the same month last year. Sales of essential commodities in terms of physical amounts are probably fully as great and in some cases exceed those during the same period last year. The demand for luxuries and semi-luxuries continues far less active than at the same time last year. The attitude of the purchasing public continues to be characterized as conservative, being far more exacting in its demands as to quality and prices than was the case some months ago. This attitude on the part of the public and a general feeling of uncertainty as to prices is said to be causing merchants to continue the attitude of caution in replenishing their stocks, purchases in most cases being chiefly for strictly current needs.

Reports on wholesale trade made by Agents in seven of the twelve Federal Reserve Districts show an improvement in the volume of trade in August as compared with July in all lines investigated except groceries, automobile supplies, and drugs. The activity of the hardware trade was especially emphasized, although it was reported from Atlanta that retailers in this line, in contrast with the wholesalers, were buying cautiously. Reports from Dallas and Kansas City state that manufacturers are unable to supply in needed quantities commodities made of steel. SanFrancisco and Atlanta reports show improvement in the shoe trade as compared with July of this year, but in the former case a 15 per cent decrease from the trade of a year ago. Although a 0.4 per cent increase was reported for the month, the Federal Reserve Agent at Atlanta states that grocery firms report that great caution is being exercised by both wholesale and retail stores and that the trend of prices is definitely downward, although some items show increases. In Dallas and Kansas City the slowing up of buying demand in groceries is attributed by dealers to unsettled prices.

The housing shortage continues to be acute in the principal cities. In New York the bulk of the new building is on contracts executed last spring or late in the winter. However, building at prevailing prices has reached or passed its peak. There has been continued wrecking of houses to be supplanted by business buildings. For August, 1,010 contracts were awarded in New York and Northern New Jersey, the valuation of which was $38,000,000, as against $36,000,000 in July. In Chicago easing is noted in the building trades. Building enterprises all through the Chicago District are still practically at a standstill. Net costs of building are now 15 to 20 per cent lower than they were a month ago. On the Pacific Coast there was a falling off in building permits from $15,582,000 in July to $13,526,000 for August, but the number of permits issued was larger. The failure to build more freely is still assigned to the high costs of building which are estimated at from two to four times the pre-war costs.

Financially the month has been comparatively quiet. There has been a contraction of loans in New York City and "for a time at least * * * a noteworthy easing of credit." Considerable movements back and forth between the New York District and other parts of the country were effected as usual through the gold settlement fund. The Federal Reserve Bank has recently repaid its borrowings at other Federal Reserve Banks in full. In District No. 7 (Chicago) money is in strong demand, but customers in some parts of the District are reducing their loans. The marketing of grain is tending to lower the call for funds in agricultural districts. In the South the credit situation is widely discussed, but it is reported by District No. 11 (Dallas) that there was "but little change in the month of August, although there was another moderate increase in the volume of bank loans and some decline in deposits." In District No. 6 (Atlanta) effort to curtail expansion and to retrench has had a good effect. On the Pacific Coast there was a decline in clearings and there has been a slight easing in the rates charged for secured loans, together with an increase in some parts of the District for loans on commercial paper. An increase of $15,623,000 of total bills on hand, accompanied by a decrease of $2,080,000 in total reserves "are the significant changes in the position of" the Federal Reserve Bank of San Francisco "during the past month." A somewhat improved condition of the investment market is reported from various parts of the country, Chicago stating that an encouraging sign is the "growth of thrift on the part of the public" as shown by an increase in savings deposits and "the large number of small investors in prime securities." In New York the demand for bills fell off during the past thirty days and the market has been quiet. The distribution of commercial paper continues fairly good, although almost entirely with country banks. Dealers report a more encouraging outlook in the Middle West. Stock market requirements have been much reduced. Call money continues available at relatively moderate rates. Time money has loaned at 8¼ to 8½ per cent, but the amounts involved are small. Collection conditions are somewhat variable. On the Pacific Coast reports received from 85 firms show that 50% have experienced no declines whatever. In other cases collections declined, the falling off beginning in the months of May and June and were exhibited partly in the declining number and volume of accounts which took advantage of cash discounts, while there was an increase in the number of accounts running past due. In District No. 8 (St. Louis) conditions have not materially altered. District No.

5 (Richmond) reports a variable condition with nine out of eighteen reporting firms complaining definitely of slowness in payments. Conditions, however, are in general "not far below normal for this season of the year." Taking the country as a whole, conditions as illustrated in the extensive inquiry into collection conditions made by the Board a month ago, which e results were published in the Bulletin for September, shows no material change. Foreign exchange has been somewhat irregular and it is reported by District No. 2 (New York) that declines in the principal Continental exchanges have been more pronounced than in sterling, francs and lire being "erratic" with a general downward tendency. This is due to seasonal offering of bills. Far Eastern exchanges have been apathetic and speculative. Rates on Argentina have continued to recede.

66th CONGRESS
2nd Session. H. R. 12379.

In the house of Representatives.

February 6, 1920.

Mr. Steagall introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.

A BILL

Amending section 13 of the Act approved December 23, 1913, known as the Federal Reserve Act, as amended by the Act approved March 3, 1915 (Thirty-eighth Statutes, chapter 93, page 958); Act approved September 7, 1916 (Thirty-ninth Statutes, chapter 461, page 752); Act approved June 21, 1917 (Fortieth Statutes, chapter 32, page 232).

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 13 of the Act approved December 23, 1913, known as the Federal Reserve Act, as amended by the Act approved March 3, 1915 (Thirty-eighth Statutes, chapter 93, page 958); Act approved September 7, 1916 (Thirty-ninth Statutes, chapter 461, page 752); Act approved June 21, 1917 (Fortieth Statutes, chapter 32, page 232), be amended as follows: That paragraph 1 of said section be amended by striking out after the word "charges" the words "to be determined and regulated by the Federal Reserve Board" and by striking out the semicolon after the word "otherwise" and substituting a period and striking out the words "but no such charges shall be made against the Federal reserve banks", so that the paragraph will read:

"Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts payable upon presentation, and, also, for collection, maturing notes and bills, or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks, and drafts payable upon presentation, or maturing notes and bills: Provided, That such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: Provided further, That nothing in this or any other section of this Act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time for collection or payment of checks and drafts and remission therefor by exchange or otherwise."

FEDERAL RESERVE BOARD

WASHINGTON

X-2018

September 30, 1920.

To the Staff of the Federal Reserve Board:

The Federal Reserve Board has accepted my resignation as its Secretary effective November 1, 1920. Inasmuch, however, as I shall not be at the office after today, I take this opportunity to try to say to you how much I appreciate the splendid spirit of cooperation and loyalty on your part that it has been my privilege to enjoy while I have had the honor of serving as an officer of the Board. It is my earnest hope and expectation that similar service to my successor in office will redound to your mutual benefit.

Faithfully yours,

FEDERAL RESERVE BOARD

WASHINGTON

September 30,1920.
X-2019

Dear Sir:

By direction of the Federal Reserve Board, I am sending to you herewith a copy of address delivered by Vice-Governor Platt before the West Virginia Bankers' Association on September 16th, a summary of which has heretofore been sent you.

Very truly yours,

Enclosure.

Secretary.

To Chairmen of all F.R. Banks EXCEPT SANFRANCISCO

FEDERAL RESERVE BOARD

WASHINGTON

October 2, 1920.
X-2020.

Dear Sir:

As a matter of information and interest, I enclose a copy of an address delivered by Governor Harding to the Motor and Accessory Manufacturers' Association at Cleveland, Ohio, on September 16, 1920. The address was delivered extemporaneously and afterwards stenciled by the Board from the stenographic report supplied by the Motor and Accessory Manufacturers' Association.

Very truly yours,

Executive Secretary.

Enclosure.

To Chairman of all Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

October 4, 1920.
X-2021

Dear Sir:

At the direction of the New Currency Committee, appointed at the last Conference of Governors with the Federal Reserve Board in Washington, April 7-10, 1920, I am sending you herewith, for your information, mimeographed copy of the "Report of New Currency Committee with Reference to Increase in the Facilities of the Bureau of Engraving and Printing" which the New Currency Committee has submitted to Governor Morss, Chairman of the Program Committee of the Governors' Conference to be held in Washington on October 13, 1920.

Very truly yours,

Enclosure.

Member, New Currency Committee,
Governors' Conference.

To Governors of all F.R. Banks.

REPORT OF NEW CURRENCY COMMITTEE WITH REFERENCE TO INCREASE IN THE FACILITIES OF THE BUREAU OF ENGRAVING AND PRINTING.

The report of the Currency Committee appointed at the last Governors' Conference held in Washington, April 7th - 10th, 1920, which was submitted to Governor McDougal June 21, 1920, dealt particularly with a plan for the equitable distribution of the available supply of new currency and provided for increasing the reserve stocks of new currency on hand. The Committee has, however, in accordance with its instructions, followed the progress of its previous recommendations and now offers this supplementary report of its conclusions as to the changes necessary to effect a return to normal conditions of supply, distribution, reserve and cleanliness of our paper currency.

At the time of the previous Conference of Governors it was the general belief that within a short time the current production of new currency by the Bureau of Engraving and Printing would be ample for ordinary needs and that the chief problems at that time were the equitable distribution of currency and the equitable replenishment of reserve stocks. After careful consideration and analysis of statistics covering operations in all kinds of paper currency of the United States during the past five years, and after securing from the Director of the Bureau of Engraving and Printing a statement of the capacity of his plant, the Committee has reached the following conclusions:

FIRST: That the current supply of new currency is inadequate to meet the demands, and that reserve stocks have been seriously diminished.

SECOND: That unless the production of new currency is increased promptly the situation will shortly become dangerous in that it will result in an insufficient supply of new currency with which to do business.

FINALLY: That if the entire capacity of the Bureau should be devoted to the printing of currency the production would be inadequate to meet current demands.

FIRST: According to figures compiled by the Federal Reserve Board there has been an average of approximately 800,000,000 pieces of currency in circulation during the past eighteen months. The best information available at the present time is that the average life of all denominations of currency, using paper made of new cotton cuttings, is approximately eight months. In order to adequately meet the present demand for new currency, the Bureau of Engraving and Printing should, therefore, print and deliver 1,200,000,000 pieces of currency per annum. Against this requirement the Bureau delivered 727,000,000 pieces for the year 1919, while the output for 1920, based upon figures for the first six months of this year will be only 638,000,000 pieces for 1920, and 562,000,000 pieces less than is necessary to provide an adequate supply of currency for the country.

For considerable more than a year the Federal Reserve Banks have been limiting new currency paid out to amounts far below that required for reasonable replacement. In spite of this, the number of pieces of new currency (of all kinds) shipped from Washington for the twelve months ending June 30,1920, greatly exceeded the number of pieces printed as shown in the following extract from Tables prepared by the Federal Reserve Board; and has resulted in seriously reducing the reserve stocks:

X-2021 a

Number of notes shipped from Washington July 1, 1919 to June 30, 1920	744,118,371
Number of pieces printed during period	649,360,132
Difference	94,758,239 or
Approximately . . .	$450,000,000

SECOND: While the Federal Reserve Banks have been gradually drawing upon their reserve stocks of new currency to meet the business demands of their Districts, the standard of cleanliness of all currency in circulation has been gradually falling. In the opinion of the Committee, this condition of the currency has already resulted in general dissatisfaction because of the necessity for continuing it in circulation until it is worn out. This condition has already become a subject for comment by the newspapers throughout the country and the following extract from one of the leading newspapers of New York City is typical:

" A FLOOD OF DIRTY MONEY.

> What is the reason for the flood of filthy and tattered money with which this city is now afflicted? Of new bills of any denomination there seem to be none; decently clean one and two dollar bills are almost as scarce as hen's teeth. Much of the currency in circulation is so soiled that people of hygienic tendencies handle it with fear and trembling. Some of it is so ragged that it seems in danger of crumbling to pieces as it passes from hand to hand.
>
> If this overworking of old money is due to an economical freak, the sooner it ends the better. The handling of excessively soiled paper must be unhealthy as well as intensely disagreeable. The amount saved to the Government or the Federal Reserve Banks or whoever is responsible is not worth the risk and the offensiveness involved.
>
> Fully half of all the smaller sized bills from $1 to $10 or even $20 now in circulation ought to be retired in short order and fresh ones put out in their stead."

The poor condition of the currency in circulation is conclusively shown by the fact that in the year 1915 when the currency was printed on paper made from new linen cuttings the number of notes redeemed amounted to 85% of the number of notes in circulation, whereas, in the year ending December 31, 1919, when the currency was printed on the much shorter-lived paper made from new cotton cuttings, the number of notes redeemed amounted to only 78.85% of the number of notes in circulation. It was possible also when using paper made from linen cuttings to launder the notes when they became dirty adding materially to the length of time they could be kept in circulation. This lessening of the percentage of redemptions is concrete evidence of the fact that all the Federal Reserve Banks have been obliged to continue their notes in circulation far beyond the time when they should have in decency been destroyed. Should this policy be continued for any considerable period there is the danger of large proportions of notes in circulation becoming so worn out that they could no longer be continued in circulation and on account of the insufficient supply of new notes printed by the Bureau to replace them, there would result an actual shortage of paper currency with which to conduct the business of the country.

In 1915, the number of pieces of currency in circulation was approximately 435,000,000. This number increased to approximately 820,000,000 or by 90% during the year ending June 30,1920. For this same period the Bureau of Engraving and Printing increased its annual output of currency from 394,000,000 pieces in 1915 to 638,000,000 pieces, or by 61% in 1920. While the total circulation of the country increased 90%, the Bureau was only able to increase its output 61%, after assigning approximately one-fourth of its men and equipment to printing of bonds and working the entire plant capacity three shifts of eight hours each. It has been stated that at least one-fourth of the Bureau's capacity must be devoted to the printing of bonds until June 1921, when it is anticipated the bond program will be completed and the output of new currency increased in proportion.

The foregoing relates to the bond printing program in hand, but it is by no means assured that the printing of bonds will end July 1921. On the other hand, it seems very probable that so long as the Government has outstanding bonds to the amount of $20,000,000,000 representing 70,000,000 pieces and a floating debt of around $3,000,000,000 there will always continue the possibility of financial operations with the resultant necessity for printing bonds in volume.

FINALLY: There are approximately 800,000,000 pieces of currency in circulation. The best information available to the Committee estimates the average life of all denominations of currency to be approximately eight months. On this basis it is evident that the Bureau of Engraving and Printing should print and deliver 1,200,000,000 pieces of currency per annum to provide for replacements under normal conditions. In making this estimate no consideration has been given to the fact that the present condition of the currency is below normal, and that a higher rate would have to be maintained for a considerable period to restore the currency to a clean standard. Against our estimated requirements of 1,200,000,000 pieces of currency a year, the Bureau of Engraving and Printing has printed so far this year at a rate of 638,000,000 pieces per annum. Even if the Bureau's output of new currency should be increased to the maximum of the plant or 900,000,000 pieces per annum, there would be a deficit of 300,000,000 pieces per annum necessary to meet the current demands as estimated above.

It is obvious from the foregoing that the Bureau cannot adequately meet the demands for new currency without increasing the size of its plant, and this Committee is unanimously of the opinion that the necessary steps should immediately be taken to increase the facilities of the Bureau of Engraving and Printing.

J.D. HIGGINS
Chairman - New York

F.W. CHASE
Boston

O.J. NETTERSTROM
Chicago

R.G. EMERSON
Federal Reserve Board.

September 21,1920.

FEDERAL RESERVE BOARD

WASHINGTON

October 7, 1920.
X-2023

Dear Sir:

For your information, there is quoted below extract from letter received by Assistant Secretary of the Treasury Gilbert from Acting Third Assistant Postmaster General Barrows, with respect to postal regulations covering shipments of United States paper currency under instructions contained in regulations of the Secretary of the Treasury issued August 30, 1920, providing for Federal Reserve Banks making exchanges, replacements and redemptions of such currency:

"Receipt is acknowledged of your letter of the first instant, which the Postmaster General has referred to me, concerning the discontinuance of the several subtreasuries in accordance with the Act of May 29, 1920, and the transfer of the subtreasury functions to the Federal Reserve Banks.

"The instructions which it is proposed to issue in connection with the change with respect to the exchanges, replacement and redemption of United States paper currency, a copy of which was submitted with your letter, have been carefully gone over as requested, and your understanding is correct that shipments of currency may be sent through the mails between the Treasury Department and the various Federal Reserve Banks and their branches under the procedure now in operation between the Treasury Department and the subtreasuries, that is, such shipments as are now sent as registered mail by the Treasury Department free of postage under penalty envelopes or labels to the several subtreasuries may be sent in the same manner to the Federal Reserve Banks and their branches; and that such shipments as are now being sent through the mails as registered matter with postage prepaid at the fourth-class or parcel post rates, either to or from the Treasury Department, may be handled in similar manner when sent to or from the Treasury Department and the Federal Reserve Banks, the methods of prepaying the postage and registration fees, pouching, etc., to be continued as under the present arrangements. Shipments of currency by the Federal Reserve Banks on secondary distribution may be sent through the mails as registered matter at the fourth-class rates in the manner in which the subtreasuries make such shipments under the arrangements now in force."

Very truly yours,

Assistant Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

(C O P Y)

CHAMBER OF COMMERCE
OF THE UNITED STATES OF AMERICA
WASHINGTON, D. C.

October 9, 1920

Honorable William P. G. Harding, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Governor:

Desiring to measure the effect of the declared policy of the Federal Reserve Board to restrict the undue use of the rediscount privilege by advancing the discount rate, we have had under consideration an analysis of the effect of the rate changes in the increase of the general bank rate, the changes in the loan account indicating a decrease of loans on government war obligations and other bonds and stocks, and the increase of the volume of loans to discounts of member banks and of all state and national banks during a period from October, 1919, to September 1, 1920.

We have also had under consideration the decrease in market values of securities arising from an advance in interest rate, the purpose being not to under-value the beneficial effects that may have resulted from the policy but rather to ascertain the cost to the public of this country in the interest bill on the one hand and the decreased market value of securities on the other as representing the offset to the safeguards that may have been included in carrying out the Board's policy. The analysis studied by our Board of Directors was not prepared in a spirit of criticism but rather of open and friendly inquiry and the figures compiled have, with very few exceptions, been taken from the statistical records of the Federal Reserve Board as published in the monthly bulletins from last November to date.

If we may venture to suggest anything to the consideration of the Federal Reserve Board it would be to express the conviction that a second definite instrument should be provided by law to be used in controlling the volume of rediscounts when the logical and usual instrument, the increase in the discount rate, fails in its effectiveness.

We have a feeling that the Phelan act, passed in April of this year, provides this other instrument to limit rediscounts, but the exercise of this power on the part of the Federal Reserve banks being optional it does not at present provide positive limitations which indicate the basic volume of rediscount operations subject to increase upon application with valid reasons therefor.

We cordially commend to your consideration the expression of our

Board that the rediscount rate may be placed upon a lower level in the near future, feeling confident that this act on the part of the Federal Reserve Board will immediately lower the general interest rate in the same ratio that the advancing rediscount rate has served to step up the general bank rate.

We are not unmindful of the danger or difficulty that may attend a reduction of the rediscount rate in its effect upon the securities market and we are not urging action in this direction until such time as the safeguards have been extended uniformly throughout all of the Federal Reserve banks to make impossible a period of speculation, as the market values of securities move upward in keeping with the lower price of money. We are desirous of continuing our analysis of the effects of this policy upon commerce and will gladly tender to the Board any assistance which the Chamber of Commerce may be able to offer in solving what we feel to be an intricate and difficult problem. We should also greatly appreciate your criticism of our position if we have misinterpreted the Board's policy in its results. We are attaching hereto a copy of the memorandum which has had the attention of the Directors and upon which the discussion of the subject has been predicated.

Very truly yours,

(Signed) JOSEPH H. DEFREES

President.

Inclosure:

(C O P Y) X-2024a

TO THE BOARD OF DIRECTORS OF THE CHAMBER OF COMMERCE OF THE UNITED STATES:

For eleven months the declared policy of the Federal Reserve Board to control credit expansion, discourage speculative operation in securities and commodities, bring about deflation, and return to normal price levels has been in effect.

The extent to which the policy has been successful is not yet clear. The instrument chosen, an increase in the rediscount rate operating in normal times, would surely have brought about the controls sought, but normal times are not with us yet and adjustments have been particularly difficult because world complexities influence them. Channels of communication are not all open and running smoothly. Transportation on land and sea is still suffering from the strain of war conditions. International credit is still chaotic and the exhausted surpluses of the necessities of life have not yet been regained. Perhaps experimentation with this instrument was desirable if only to insure the maintenance of the lawful reserves of gold against the deposit and note circulation liability of the Federal Reserve system, but whether the results hoped for have or have not been realized the value of these results must be measured by the disadvantages suffered to secure them, and the policy of the Federal Reserve Board has had such a marked effect upon the interest rate for current and time credit operations, and upon the values of outstanding securities, and even in some measure upon the general price level, that I have been led to make an analysis for your consideration to permit you to determine whether a change of policy is advisable or necessary, or whether a further amendment to the Federal Reserve law should be made to provide other instruments of control than the one used in this instance.

In presenting this analysis I wish it distinctly understood that I am not criticising the Federal Reserve Board nor the boards of the Federal

Reserve banks. I am simply asking a consideration of the apparent results of the Board's policy to determine, perchance, whether the Chamber of Commerce of the United States has a duty in connection with the further continuance of this policy.

We may assume that the consistent operation of the policy has developed certain restraining influences. The extent to which disaster has been averted is difficult to measure. The unknown quantities may compensate for all costs. I shall not try to speculate regarding them, but only to set forth such comparative facts as are available from the records of the Federal Reserve system.

1. We must admit that the restraints of an increased rediscount rate helped to maintain the metallic reserve against deposits and note circulation. The value of this as holding the public confidence in the Federal Reserve system is very great. The same result might have been obtained by a broader interpretation of the power of the Board to limit rediscounts, but the law is not mandatory or even specific on this question of limitation and, therefore, the instrument chosen was the natural and logical one.

2. The investment account of eight hundred reporting member banks has been reduced from November, 1919, to July, 1920, by something over $450,000,000.

3. The loans on United States bonds and certificates fluctuated from $1,061,000,000 on October 4 to a high of $1,189,000,000 in March to a low of $1,000,000,000 in July, a net decrease for the period of $61,000,000.

4. Loans on stocks and bonds other than United States securities likewise fluctuated from $3,200,000,000 in October to a high of $3,350-000,000 in January to a low of $3,046,000,000 in July, a net decrease for the period of $156,000,000. Undoubtedly the high interest rate deferred

some capital investments where the earning power of such investments was low, and bond and stock operations and commodity purchases were curtailed. Operations of a highly profitable or speculative nature, however, probably proceeded, notwithstanding the rate; for speculation, especially in abnormal times, plays for a stake and the price of money becomes a secondary consideration.

I wish to discuss in their order the changes since the Federal Reserve policy was announced in

The price of money;
The general stock of money;
The index figures for wholesale prices;
The loans and discounts of reporting banks and all state and national banks;
The price of war obligations of the United States Government;
The price of all other bonds;
The volume of securities issued.

The Price of Money:

The Federal Reserve Board in its Bulletin dated October 1, 1919, said:

"The disappearance of the Treasury from the long term loan market and the rapid reduction of its requirements for short term accommodation foreshadow the approach of the time when the financial operations of the Goverment will cease to be the important factor in shaping Reserve bank policies which they have been, and Federal Reserve bank rates once more will be fixed solely with a view of aiding commerce and business."

In the November Bulletin the Board said:

"A review of all the conditions in the banking situation has confirmed the Board in the view that in the application of its discount policy an advance of rates should no longer be deferred."

Also, in the December Bulletin the Board said:

"The usual method of restricting the undue use of the rediscount privilege is to advance rates. This policy would have been put into operation several months ago except for its bearing upon government financing. The fact that the Treasury had sold more than twenty billions in bonds and Victory notes, many of which had been taken by persons who had been unable to pay for them in full but were obliged to carry them at banks, liquidating their obligations from time to time, materially altered the policy which would otherwise have been adopted by the Board. That a relatively low rate was maintained for the purpose of accommodating bona fide subscribers to government obligations opened an opportunity for other borrowers to obtain funds for their own purposes at comparatively low cost."

For more than twelve months preceding these editorial announcements rediscount rates had been maintained at from 4-1/4% to 4-3/4%, and this rate served to anchor the rate charged by member banks to customers, and in the open market at 5-1/4% to 5-1/2%, a differential of from 3/4% to 1% above the rediscount rate.

Quoting from the Board's March Bulletin:

"It was the Board's view also that as a rule the discount rates of the Federal Reserve Banks should be higher than current market rates, thus offering no incentive to member banks to rediscount for the sake of making a profit in the transaction."

However proper this view may be, the operation does not seem to proceed that way, and the argument most frequently advanced when the Federal Reserve law was under discussion was that the power of the Federal Reserve Board to make a rediscount rate would serve to stabilize bank rates upon a reasonable and favorable level.

From September to November 29, 1919, the rediscount rate was fractionally advanced and the general bank discount rate moved up fractionally to a maximum of 6%. Under normal conditions this fractional advance would have retarded loan expansion but the contrary was the result and up to January 16, 1920, the loans and discounts of some eight hundred reporting banks increased $500,000,000. On January 21, 1920, the first consequential rediscount increase was made, to a maximum of 6%. The result to May 14 was an increase in loans and discounts of $1,500,000,000. Subdivided, the loans changed as follows:

On U. S. securities, increase $87,000,000;
On stocks and bonds other than U. S. securities, decrease $250,000.000;
Other loans, principally commercial paper and discounts, increase $1,600,000,000.

Comment editorially in the March and April Bulletins of the Federal Reserve Board was as follows:

"The normal and traditional method of credit control has been the discount rate. Its efficiency, however, presupposes normal conditions. The advance in rate operates in normal conditions not only to diminish the demand for credit by making certain activities unprofitable but as well it increases the supply of credit by attracting it from other centers or countries. The conditions that make this traditional control effective do not all exist at the present time. The expansion of credit set in motion by the war must be checked. Credit must be brought under effective control and its flow must be regulated and governed with careful regard for the economic welfare of the country and the needs of the producing industries. Deflation, however, merely for the sake of deflation and the speedy return to normal, deflation merely for the sake of restoring securities and commodities to their prewar levels without regard to other affairs, would be an insensate proceeding in the existing posture of national and world affairs.

"The influences of the discount rate policy of the Federal Reserve banks upon the investment market has if anything been less obvious than in the commercial banking field. As money rates have increased the influence tending to maintain capital operations at comparatively low level have been correspondingly lessened."

On May 29 a further substantial increase was made in the rediscount rate, to a maximum of 7%. Comment editorially in the June, July and August Bulletins was as follows:

"In view of the steady pressure for funds and by way of emphasizing the necessity for continued moderation in rediscount applications, advances not exceeding fifteen days, secured by eligible commercial paper, are fixed at the rate of 7 per cent, May 29th.

"Seven per cent rate for commercial paper, which has just been established, substantially reflects conditions in the commercial loan market of this country, where during the past month there has been a decided upward tendency, due to the increased pressure for commercial banking operations. The new rates, therefore, bring the rediscount charge practically into line with the movements of commercial rates.

"The question constantly asked within the last few months has been the relationship noted between the control of credit, the application of higher discount rates, and the actual expansion of operations. On this subject the evidence is still conflicting and lacking in certainty as to details. The general conclusion to be drawn is unmistakably to the effect that the operation of credit control through higher discount rates has had a marked success. It is true that during the earlier period of its application, November, December, January, and February, an absolute check to the growth of rediscounting was not effected. This fact, however, should not be interpreted in the light of absolute figures but rather in the light of relative conditions."

"Summarizing the outcome, Governor Harding expresses the opinion:

'Further expansion of bank credits has apparently been checked, though the volume of loans and discounts of neither member banks nor Federal Reserve Banks has been materially reduced.'

"The result in question is being attained only in part through the direct influence of higher rates of interest and discount and in part through the application of judicious methods of limiting unessential and unnecessary credits."

The effect of these increases on the general bank rate was to step up customers' rates to 7% and open-market purchases to 8%. The result to July 16 of the effort to curtail discounts and rediscounts was as follows:

Total loans of eight hundred reporting banks increased $1,950,000,000.

The changes in the loan account were as follows:

Loans secured by U.S. obligations decreased $61,000,000.
Loans secured by stocks and bonds decreased $156,000,000.
All other loans increased $2,195,000,000.

and the figures for September 17 show but a slight variation from these totals.

The result on rediscounts held by the Federal Reserve Banks was to increase the total rediscounts to $350,000,000, but the distribution was markedly different in that loans on U.S. securities decreased $444,000,000, while other rediscounts, principally commercial paper, increased $795,000,000. It must be borne in mind that the transactions here referred to represent only the operations of about eight hundred reporting member banks. On February 28,1920, the loans and discounts of all National and State banks were $26,685,000,000. On February 13th the loans and discounts of the reporting banks whose figures make up our comparison were $13,931,000,000.

It would appear from the foregoing that the policy adopted by the Federal Reserve Board did not decrease loans and discounts nor rediscounts, although had no restraint been imposed we do not know how far the gold reserve might have been impaired nor can we estimate the extent to which discounts might have been increased. We do know that the operation of the Board's policy served to increase the average interest rate on current short time borrowings by at least 1-1/2% on $26,000,000,000 of credit, or an annual cost, if the policy is pursued, of $400,000,000 more than would have been the case had the general bank rate and the rediscount remained at or about the figures of October, 1919. Perhaps we may raise the question whether the choice of another instrument of control than the raising of the rediscount rate would not have been quite as effective and less costly.

Stock of Money :

If the policy of the Federal Reserve Board did not decrease rediscounts it must likewise have failed to reduce the general stock of money in the United States and the amount in circulation. The general stock of money in the United States increased $430,000,000 from September 1, 1919, to September 1, 1920, and the money in circulation increased in the same period $464,000,000. The per capita circulation, which was $54.03 on September 1, 1919, increased to $57.88, although an estimate of the increase in population was applied in this last computation.

Index Figures of Wholesale Prices:

I should not care to attribute to the policy of the Federal Reserve Board the responsibility for the price advances of this period, although increased interest rates would hardly bring about price deflation. The Bureau of Labor Statistics submits index figures for all commodities showing a steady advance from 220 in October to 272 in May with a recession since May to 262 for the month of July, while the index numbers of all commodities provided by the Statistical Department of the Federal Reserve Board range from 212 in October to 264 in May with a recession to 251 in July, 1920.

It seems perfectly obvious that neither the money in circulation nor the loans and discounts could be reduced in the face of such price advances, which would demand larger capital and credit to finance the same number of units produced and distributed; neither could it be logically argued that the general stock of money or the volume of loans and discounts was out of range with the increase in prices. Taking the national banks as a fair guide, the loans and discounts doubled between December 31, 1914, and May, 1920, while commodity prices increased from 100 to the maximum of 272 during the same period.

Loans and Discounts of Reporting Banks and of all Banks:

I think I have referred sufficiently to this item in the paragraph on the price of money. Loans on Government War obligations and on other stocks and bonds were decreased $217,000,000, but other loans were increased $2,195,000,000 to cover the requirements of commerce owing to price advances, and if all National and State banks are considered, instead of only the eight hundred banks used in the comparisons, the totals would be greatly increased.

Price of U. S. War Obligations:

The effect of an increased rediscount rate upon the outstanding war obligations of the Government was firmly in the mind of the Federal Reserve Board, and as long as the Government was a large borrower rates were anchored down to low levels. Perhaps other influences beside the discount rate affected the market value of these securities, but the greatest declines followed the rate changes under the Federal Reserve Board policy.

On October 10, 1919, the market value of all outstanding war obligations was $19,475,000,000. After the fractional rate advances of November and December the market value declined to $19,251,000,000. After the larger increases in the rediscount rate in January and in May, the market value was reduced to $17,641,000,000, while on September 1 of this year the market value was $17,308,000,000, a total loss in market value from October, 1919, to September, 1920, of approximately $2,166,000,000.

Other Bonds:

At the beginning of 1920 the par value of railroad bonds outstanding was substantially $12,500,000,000. The market value was $9,079,000,000. On May 31 the market value approximated $8,484,000,000, a loss of $595,000,000, while on September 1 a gain was registered, probably due to favorable legislation, making the market value $8,631,000,000, a loss for the full period of $448,000,000.

On public utilities securities the final figures are not compiled but the loss from October, 1919, to September, 1920, will surely exceed $500,000,000.

Industrial bonds have likewise been seriously affected. The totals of these and the loss in market value can be obtained. Suffice it to say that, as an indication in market value, four of the most staple industrial bond issues lost from October 10, 1919, to September, 1920, 5-1/2 points.

No effort has been made to compute the loss in market value of the great volume of municipal bonds outstanding, but this will probably closely parallel the loss sustained in the Government's war obligations and produce a total shrinkage in market values in excess of $5,000,000,000. Of course, this is not all a loss, for the market values will be restored with improved conditions and as the prospect for lower rates becomes assured, but the loss to individuals and corporations can be measured by the transactions in these issues and will, if computed, show surprising figures. Here again I raise the question whether the choice of some other instrument than the large increase in the rediscount rate might not have been as effective in restraining and much less costly.

Securities Issued:

Bond, stock and note issues during the period under consideration must also be considered in calculating the results of the Federal Reserve Board's policy. From January to August inclusive, 1919, new issues amounted to $1,850,000.000. From January to August inclusive, 1920, new issues amounted to $2,444,000,000. These figures would not indicate that the policy of the Federal Reserve Board had greatly restrained the issuance of securities, but the addition to the overhead costs arising from a greatly increased interest rate will be present for some years and constitute a tax upon the public which, in the last analysis, must assume the burden.

We have been considering up to this point only securities bought and sold on the exchanges, but reference must be made to that great mass of other loans, including real estate loans, the market value of which has been affected and to the cost of new or refunding financing greatly increased by the general interest level. Could another instrument than a radical increase in the rediscount rate have been chosen?

Section 5202 of the Revised Statutes provides that

"No national banking association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

Notes of circulation.

Moneys deposited with or collected by the association.

Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Liabilities to the stockholders of the association or dividends and reserve profits."

In September, 1916, this section was amended to make possible further expansion of liabilities incurred under the provisions of the Federal Reserve Act.

In the March Bulletin the Governor of the Federal Reserve Bank is reported as follows:

"Although there are no specific limitations imposed upon the amount of borrowings by member banks at the Federal Reserve banks, there is a potential limitation provided for in the Act. In that part of section 4 which relates to the duties of the board of directors of a Federal Reserve Bank there is the following:

'Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims of other member banks'.

"Therefore, it is possible to determine theoretically what a fair line of accommodation for any member bank would be; that is, what amount of accommodation can be granted 'safely and reasonably *** with due regard for the claims of other member banks'.

"Any attempt, however, to control credit by the application of this rule is subject to serious administrative difficulties. If the paper offered is eligible and good, it would be better for a reserve bank to grant accommodation at a price rather than to refuse it entirely, but the act, subdivision (d), section 14, provides that a Federal Reserve Bank shall have power to establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve Bank for each class of paper, which shall be fixed with a view of accommodating commerce and business. There is no authority, however, for establishing graduated rates based upon the total borrowings of a member bank, and consequently when it becomes necessary to advance the discount rate in order to curb demands of those banks rediscounting with the Federal Reserve Banks in very large amounts the same rate would have to apply to the moderate requirements of other member banks who may rediscount with the Federal Reserve Banks infrequently and never excessively. Thus application of rate advances as a corrective or deterrent to certain banks tends to raise the level of current rates to all.

"The Board, therefore, recommends to Congress that an additional power be granted it, by adding to subdivision (d), section 14, a proviso that each Federal Reserve Bank may, with the approval of the Federal Reserve Board, determine by uniform rule, applicable to all its member banks alike, the normal maximum rediscount line of each member bank and that it may submit for the review and determination of the Federal Reserve Board graduated rates on an ascending scale to apply equally and ratably to all its member banks rediscounting amounts in excess of the normal line so determined. In this way, in the opinion of the Board, it would be possible to reduce excessive borrowings of member banks and to induce them to hold their own large borrowers in check without raising the basic rate. The Federal Reserve Banks would thus be provided with an effective method of dealing with credit expansion more nearly at the source than is now practicable and without unnecessary hardship to banks and borrowers who are conducting their affairs within the bounds of moderation.

"Congress on April 3 finally completed its work upon the Phelan bill which had been recommended by the Board, and the President on April 13 signed the measure, thus making it law. The Act as now on the statute books further extends the Board's power in connection with the approving of discount rates by providing that these rates 'subject to the approval, review, and determination of the Federal Reserve Board, may be graduated or progressed on the basis of the amount of the advances and discount accommodations extended by the Federal Reserve Bank to the borrowing bank'. The new provision is thus permissive and not mandatory, its purpose being that of authorizing Federal Reserve Banks with the approval of the Board to establish a 'line of credit' or discount accommodation for each member bank, subjecting those which pass beyond this limit in their applications to a progressively growing rate designed to repress the undue enlargement of such applications."

From the August Bulletin we take the following:

"Under the terms of the Phelan Act adopted by Congress on April 13, 1920, provision was made for the application of graduated rates of rediscount, rising from a base rate to be established at the option of the board of directors of the Federal Reserve Bank, according as the applications for rediscount filed by member banks exceeded a specified or base line to which the normal or basic discount rate was applicable. Since the adoption of the Phelan Act the new plan has been put into effect by four Federal Reserve Banks. The basic line which has been adopted by the Atlanta, St. Louis, and Kansas City banks is two and one-half times a sum equal to 65 per cent of the member bank's average reserve balance plus its paid-in subscription to the capital stock of the Federal Reserve Bank, both calculated over a fixed period either preceding or identical with the period to which the basic line applies. For the Dallas district, however, a basic discount line was adopted equal to the paid-in capital and surplus of the member bank. Atlanta and St. Louis apply the normal rate, i. e., the general effective rate to all offerings for rediscount and apply a progressive 'super-rate' at the end of the reserve computation period to the average borrowings in excess of the basic line, while Kansas City and Dallas impose the 'super-rate' upon such part of the current offerings as may, together with outstanding borrowings, be in excess of the basic line. As a scale of rates, all four banks have adopted an increase of one-half of 1 per cent for anything up to 25 per cent in excess of the basic line, with 1 per cent for the second 25 per cent excess, and so on upward. Exceptions to this progressive rate plan were generally made in case of member bank collateral notes secured by Government obligations, although some variation in method of making exceptions has been introduced in the four banks where the plan has been in effect. As illustrative of the working of the plan a concrete example may be cited. A bank with a normal line of $100,000 and borrowings of $200,000 would be charged an excess or super-rate of one-half of 1 per cent on $25,000, 1 per cent on an equal amount, a 1-1/2 per cent on a like amount, and 2 per cent on the final $25,000. All paper under discount on the date the progressive rates became effective was exempted from the application of the super-rate, although counted as part of the general credit structure in determining the scale of super-rates applicable to new loans or to renewals. The working of the plan is of considerable interest because of the fact that it has not been applied to all districts, while there has been difference of opinion as to the theoretical advantages of it."

This recital is not made for the purpose of fault-finding. Water once over the dam cannot be brought back. Disadvantages suffered or losses sustained through the policy adopted by the Board cannot be recovered.

The question would appear to be whether another instrument than a radical increase of the rediscount rate could have been chosen that would have effectively applied needed restraints and proved less costly to the commerce of the country.

It is evident that the Governor of the Federal Reserve Board believed that the boards of the Federal Reserve banks had the power to limit rediscounts, but they did not see fit to exercise it, probably because the power was permissive only and uniformity of action was difficult to secure.

When the raise in the discount rate in November and December did not produce the desired results, some other expedient could have been tried, but again the provisions of the law were not mandatory and even the provisions of the Phelan Act left it to the discretion of the boards of the Federal Reserve banks to adopt a basic limit of rediscounts and a progressive rate for the excess of such limits.

So long as the power to set limitations and to impose either the maximum rate approved by the Federal Reserve Board or the progressive rate of the Phelan Act is optional, there will continue to be a measure of uncertainty and lack of cohesive and uniform action among the Federal Reserve banks.

A certain measure of flexibility must be retained, for the demands upon the Regional Banks differ materially, but more uniformity can be had without destroying the flexibility.

(1) The Chamber of Commerce of the United States could suggest to the Federal Reserve Board a restoration of the rediscount rate to a level which all of the Regional Banks could adopt without impairing the flexibility of their own action or make for discrimination as between the member banks.

Acting under the provisions of the Phelan Act a basic limitation of rediscounts could be set for all member banks.

Rediscount privileges required in excess of this limitation could be granted by the boards of the Regional Banks upon application and at a rate in keeping with the essential character of the excess requirements and the need to maintain the legitimate commercial operations of the Region.

(2) When next opportunity offers, there could be proposed an amendment to the law that the basic limitation be fixed as a mandatory provision.

FEDERAL RESERVE BOARD

WASHINGTON

October 14, 1920.

X-2025

Subject: Regulations, Series of 1920.

Dear Sir:

Enclosed herewith are two copies of the Federal Reserve Board's regulations, Series of 1920. These regulations become effective October 25, 1920, and are for release for the press upon that date.

It was at first arranged that the Federal Reserve Bank of New York should print the large number of these regulations necessary to supply all Federal Reserve Banks, and accordingly on October 1st the Federal Reserve Bank of New York telegraphed the other Federal Reserve Banks asking for information as to how many copies would be required by each Federal Reserve Bank respectively. Since that time the Board has arranged to have the Government Printing Office print a sufficiently large number to supply all Federal Reserve Banks and the full number of copies ordered by each Federal Reserve Bank from the Federal Reserve Bank of New York will be shipped by the Federal Reserve Board within a few days.

Very truly yours,

Enclosure.

Governor.

To Governors and Agents of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

October 12, 1920.

X2026

Dear Sir:

I have received a letter dated September 27, 1920, from Assistant Secretary of the Treasury Gilbert, with regard to the recommendations which the Secretary's Committee on the Revision of Currency Designs has submitted concerning the legends to appear hereafter upon the face of Federal Reserve notes and National Bank notes and Federal Reserve Bank notes in lieu of those which at present appear on the backs thereof.

The Secretary's Committee contemplates a plan which will provide for uniform backs for each denomination of paper currency issued by or under the auspices of the Secretary of the Treasury, irrespective of the character of the issue. To accomplish this the legends now appearing on the backs of the various issues must be transferred to the faces and as the space available on the faces is somewhat restricted the Committee believes that the legends should be shortened if possible. Assistant Secretary Gilbert has requested the views of the Federal Reserve Board and the Federal Reserve Banks regarding the revisions suggested by the Committee. The views of the Comptroller of the Currency have also been requested.

While it is evident that brevity of phraseology is necessary, it seems to the Board quite essential that the phraseology of the Acts of Congress involved should be followed wherever possible, unless the necessity for brevity prevents.

With respect to Federal Reserve notes the following legend now appears on the backs thereof:

> This note is receivable by all National and Member Banks and Federal Reserve Banks and for all Taxes, customs and other public dues; it is redeemable in gold on demand at the Treasury Department of the United States in the City of Washington, District of Columbia, or in gold or lawful money at any Federal Reserve Bank.

The Committee recommends in lieu thereof the following:

> This note is receivable by the Government for all public dues and by all Federal Reserve Banks and Member Banks on all accounts; it is redeemable in

> gold on demand at the Treasury Department in Washington or in gold or lawful money at any Federal Reserve Bank.

It will be noted that the present legend follows almost word for word the provisions of Section 16 of the Federal Reserve Act authorizing the issuance of these notes. The legend proposed by the Secretary's Committee shortens the second clause and rewords the first clause. The first clause reworded does not reduce the space. It would seem therefore that the original wording of this clause should be continued since it follows the wording of the Act of Congress. The second clause is practically identical except for the omission of certain irrelevant words and appears satisfactory.

The Board, therefore, suggests the following legend:

> This note is receivable by all National and Member Banks and Federal Reserve Banks and for all taxes, customs and other public dues; it is redeemable in gold on demand by the Treasury Department in Washington or in gold or lawful money at any Federal Reserve Bank.

With respect to National Bank notes and Federal Reserve Bank notes the following is the present legend as it appears on the back:

> This note is receivable at par in all parts of the United States in payment of all taxes and excises and all other dues to the United States except duties on imports and also for all salaries and other debts and demands owing by the United States to individuals, corporations and associations within the United States except interest on the public debt.

In lieu thereof the Committee recommends the following:

> This note is receivable by the Government for all public dues except duties on imports, and when so received may be paid on any account except interest on the public debt and for the redemption of the National Currency.

Section 18 of the Federal Reserve Act provides that Federal Reserve Bank notes shall be of the same tenor and effect as National Bank notes. Section 5182 of the Revised Statutes as amended January 13, 1920, makes provision for the terms and conditions of such bank notes. The present legend follows the phraseology of this section with minor exceptions. It is evident that this phraseology is needlessly voluminous and as brevity is essential it is necessary to reduce its length. The Board has certain objections, however, to the legend as proposed by the Committee. In order to comply with the provisions of the Act of Congress in so far as possible, it seems advisable that the last clause should read "in redemption of" instead of of "for redemption of". Furthermore, there seems to be no necessity for the insertion of the clause "when so received". Section 5182 neither expressly nor by inference limits the right of the United States to use National Bank notes to pay obligations due to individuals only when such notes have been received in payment for public dues, etc. The Board recommends therefore, that the clause "when so received" be omitted and that the phrase "by the Government" be inserted after the word "paid".

The Board therefore suggests that the new legend be as follows:

> This note is receivable by the Government for all public dues except duties on imports, and may be paid by the Government on any account except interest on the public debt and in redemption of the National Currency.

Very truly yours,

Governor.

To the Governors and Federal Reserve Agents
of all Federal Reserve Banks, to be submitted
at the Governors' Conference to be held in
Washington on October 13, 1920.

FEDERAL RESERVE BOARD

X-2027

To Federal Reserve Board Sept. 25, 1920.
From M. B. Angell, Assistant Counsel.

SUBJECT: Constitutionality of proposed amendment to Oregon Constitution fixing 5% as maximum rate of interest.

The opinion of this office has been requested as to whether the proposed modifications in the Constitution of the State of Oregon fixing 5% as the maximum rate of interest and discount which any bank located in Oregon may receive, will, if enacted, control and limit the rates of interest and discount which the Portland Branch of the Federal Reserve Bank of San Francisco may charge. This office is of the opinion that the Constitution of Oregon can not so limit such rates; that the loan and discount operations of Federal Reserve Banks and their Branches are not subject to State usury laws; and that the fixation of interest and discount rates rests exclusively with the Federal Reserve Banks subject to the review and determination of the Federal Reserve Board.

The Federal Reserve System is a national banking system created by virtue of an Act of Congress. The twelve Federal Reserve Banks and their Branches are creatures of the Federal Government. It can not now be questioned that Congress has the power to create such a national banking system, and to endow it with such powers and functions as are necessary to enable it to effect its objects. McCulloch v. Maryland, 4 Wheat. 315; Osborne v. U. S. Bank, 9 Wheat., 738; Central National Bank v. Pratt, 115 Mass. 539; 15 Am. Rep. 138. Congress having created the Federal Reserve System in the execution of its undoubted Constitutional authority, and having clothed the Federal Reserve Banks organized thereunder with certain powers, among others, the power to establish rates of interest and of discount "subject to the review and determination of the Federal Reserve Board", any attempt on the part of the State of Oregon to limit such rates raises a question of constitutional law rather than the law of contract.

So far as this office is aware there are no direct decisions as to whether the Federal Reserve Banks are subject to the usury laws of a State. There are, however, a number of cases in which it has been held that State laws attempting to control and regulate the operations of national banks are unconstitutional. Certain of these cases involve the application of State usury laws to national banks. An analysis of some of these cases will perhaps assist in a convincing solution of the question at issue.

It is well established that in view of the provisions of the National Bank Act the State usury laws have no application to national banks except in so far as Congress has expressly made them applicable. Farmers & Merchants National Bank v. Deering, 91 U.S. 29; Central National Bank v. Pratt, supra; First National Bank v. Garlinghaus, 22 Ohio St. 429. This principle has recently been affirmed in Evans v. National Bank of Savannah, 251 U.S. 108, decided December 8, 1919. Section 5197 of the Revised Statutes provides in effect that a national bank may charge interest on any loan or discount at the rate allowed by the laws of the State in which the bank is located and that where no rate is fixed by the State law a national bank may charge a rate not exceeding 7%. Section 5198 prescribes the penalties for the charging of a greater rate of interest than that allowed in the preceding section. Under these provisions it is held that the State laws are relevant only to determine the rate of interest. Beyond that the State laws have no bearing.

In Farmers & Merchants National Bank v. Deering, supra, it appeared that the Court of Appeals of New York had held as a matter of construction, that the penalties prescribed in the National Bank Act were inapplicable where the State law fixed the maximum rate, and that a national bank which had exceeded that rate was subject to the penalties prescribed by the State law. On appeal, the Supreme Court of the United States reversed the decision of the New York Court on both points, saying that the Court below was in error in its construction of the National Bank Act, and that even under the construction which it gave to it, the State law could not apply, since the Federal authority was paramount and exclusive. While the expression of the Court would seem to sustain the principle that the usury laws of a State are not applicable to a national bank even though Congress is silent as to the maximum rate which a national bank may charge, the actual decision in the case only goes to the extent of holding that where Congress has prescribed a maximum rate, its action is constitutional, and any conflicting legislation on the part of the State is void in so far as the national agent is concerned. The expression of the court, however, constitutes a strong dictum to the effect that the State usury laws can not control national banks, and a fortiori can not control Federal Reserve Banks.

The Supreme Court reiterated its decision in the Deering case in Davis v. Elmira Savings Bank, 161 U. S. 275. In this case it appeared that, by virtue of a law of the State of New York, savings banks having deposits in any bank in New York which went insolvent obtained a prior claim upon the assets of the insolvent bank. Under the provisions of the National Bank Act, however, the receiver of a national bank was required to pay all claims ratably. A national bank located in New York went insolvent, having in its possession deposits of a savings bank. The Court of Appeals of New York held that the law of New York was controlling. On appeal, however, the Supreme Court reversed its decision and held that as the two statutes covered the same subject-matter, the State statute must give way. The Court said in part: (p. 283)

> "The question which the record presents is, does the law of the State of New York on which the Savings Bank relies conflict with the law of the United States upon which the Comptroller of the Currency rests to sustain his refusal? If there be no conflict, the two laws can co-exist and be harmoniously enforced, but if the conflict arises, the law of New York is from the nature of things inoperative and void as against the dominant authority of the Federal Statute."

In certain other cases, the Supreme Court appears to have proceeded upon a slightly different theory in holding the State law unconstitutional. In the early case of McCulloch v. Maryland, supra, it was decided that a State statute taxing the operations of a branch bank of the National Bank of the United States was unconstitutional and void, since it imposed a burden upon and interfered with the operation of an instrumentality of the National Government. It will be noted that in this case the provision of the Act of Congress incorporating the bank did not expressly conflict with the State law which was held unconstitutional. The Court said, in part: (p. 435)

> "The Court has bestowed on this subject its most deliberate consideration. The result is a conviction that the states have no power, by taxation or otherwise, to retard, impede, burden, or in any manner control, the operations of the constitutional laws enacted by Congress to carry into execution the powers vested in the general government. This is, we think the unavoidable consequence of that supremacy which the constitution has declared."

The case of Easton v. Iowa, 188 U. S. 220, proceeded upon the same reasoning. An Iowa statute prohibited the officer of an insolvent bank from accepting deposits after the insolvency of the bank and with knowledge of such insolvency. The defendant Easton, an officer of a national bank located in Iowa, accepted a deposit knowing that the bank was insolvent, and the Supreme Court of Iowa sustained a conviction under the Iowa statute. On appeal to the Supreme Court of the United States, this decision was reversed on the ground that the Iowa statute, when applied to national banks, interfered with their operation and was in fact in conflict with the purpose of the National legislation. The Court said in part relative to the national bank legislation: (pp. 229, 230)

> "That legislation has in view the erection of a system extending throughout the country and independent so far as powers conferred are concerned, of State legislation which if permitted to be applicable might impose limitations and restrictions as various and as numerous as the States" citing McCulloch v. Maryland, supra, and Osborne v. U. S. Bank, supra, * * * * * *
>
> "Such being the nature of these national institutions it must be obvious that their operations can not be limited or controlled by State legislation."

There is still another principle which the Supreme Court of the United States has enunciated and which bears upon the question at issue. Although a State law may not directly conflict with the provisions of an Act of Congress, if from the subject-matter involved and the extent of the Federal legislation it is evident that Congress intended that there should be no further legislation on the subject-matter, it is not competent for a State to supplement the provisions of the Federal statute. Houston v. Moore, 5 Wheat. 1, 21-22; Prigg v. Pennsylvania, 16 Peters, 536-618. In the latter case the Court said: (p. 618)

> "Where congress have exercised a power over a particular subject given them by the constitution, it is not competent for State legislation to add to the provisions of Congress upon that subject; for

that the will of Congress upon the whole subject is as clearly established by what it has not declared, as by what it has expressed."

On the other hand, it cannot be denied that a national instrumentality, such as a national bank or a Federal Reserve Bank, is subject to a certain extent to the jurisdiction of the State in which it is located. Its ordinary contracts are governed and construed by the State law. The acquisition and transfer of its property are based on State law. State fire laws and construction laws apply to it as well as to any other corporation located within the State. As was said in National Bank v. Commonwealth, 76 U.S. 353, 361:

> "It certainly cannot be maintained that banks or other corporations or instrumentalities of the government are to be wholly withdrawn from the operation of State legislation."
>
> * * * * * * * * * * * * * * * * * *
>
> "The agencies of the Federal government are only exempted from State legislation so far as that legislation may interfere with, or impair their efficiency in performing the functions by which they are designed to serve that government."

It was also said in Davis v. Elmira Savings Bank, Supra, in speaking of national banks -

> "It is certain, that in so far as not repugnant to acts of Congress, the contracts and dealings of national banks are left subject to the state law."

In view of the divergent opinions expressed in the foregoing and other cases, it is perhaps difficult precisely to determine the line of demarcation between the jurisdiction of the State and that of the Federal Government in such cases. A close analysis of those cases, however, and of the expressions of the Court therein seem to establish the following principle: Where Congress in the exercise of its constitutional authority has created an instrumentality, such as a system of national banks, for the purpose of carrying into execution the constitutional powers of the National Government, a State law which, in the absence of express permission by Congress, attempts to control or regulate the operations of the Federal agency, is unconstitutional and void in so far as the national agency is concerned, (1) if the State law is substantially in conflict with or repugnant to some express provision of the Federal legislation creating the instrumentality; or (2) if the State law imposes a burden upon or impairs the effective execution of those operations which are necessary and proper for the efficient execution of the national purpose for which the instrumentality was created, or (3) if the State law attempts to supplement the legislation of Congress in a certain matter upon which the Federal legislation is silent but it is evident from the extent of the legislation that Congress intended that there should be no further legislation with regard to the subject-matter; within certain limits the National agency is subject to the general undiscriminating laws of the State within which it is located.

Mr. Justice White in Davis v. Elmira Savings Bank, supra, 283 states the principle clearly when he says:

"National banks are instrumentalities of the Federal government, created for a public purpose, and as such necessarily subject to the paramount authority of the United States. It follows that an attempt by a State to define their duties or control the conduct of their affairs is absolutely void, wherever such attempted exercise of authority expressly conflicts with the laws of the United States, and either frustrates the purpose of the national legislation or impairs the efficiency of these agencies of the Federal government to discharge the duties, for the performance of which they were created. These principles are axiomatic, and are sanctioned by the repeated adjudications of this court."

But he is careful to add: (p. 290)

"Nothing, of course, in this opinion is intended to deny the operation of general and undiscriminating state laws on the contracts of national banks, so long as such laws do not conflict with the letter or the general objects and purposes of Congressional legislation."

Applying the foregoing principles to the question at issue, it seems very clear that the usury laws of Oregon or of any other State cannot limit or control the loan and discount operations of the Federal Reserve Banks, and that any attempt on the part of Oregon to compel the Federal Reserve Bank of San Francisco or its Portland Branch to confine its interest and discount rates to the maximum rate allowed under the State law is an unauthorized and unconstitutional inferference with the operations of a national agency.

In the first place, the usury provisions of the Oregon Constitution, if enacted, will be substantially in conflict with and repugnant to an express provision of the Federal Reserve Act. Although, unlike the National Bank Act, there is nothing in the Federal Reserve Act precisely limiting the rates of interest or discount which a Federal Reserve Bank may charge, Sections 13 and 14 of the Act authorize the Federal Reserve Banks to establish interest and discount rates "subject to the review and determination of the Federal Reserve Board;" and require that "they shall be fixed with a view to accommodating commerce and business." It cannot be questioned that this delegation of power to fix the rates is constitutional. Field v. Clark, 143 U.S., 649; 693; Buttfield v. Stranahan, 192 U. S. 470, 496. The discount and loan operations of a Federal Reserve Bank and the rates established in relation thereto are not primarily or in any substantial sense for profit but are mainly for the purpose of directing and exercising a certain control over the credit operations of the country with an idea to insure sound banking. Their purpose is national and nation wide. In order to efficiently perform the functions for which these banks were created it might, for instance, be thought necessary that interest and discount rates be fixed at a high level and uniform throughout the country in order to control a dangerous over-inflation of credit. If such rates were subject to the usury laws of the several States this national policy could not possibly be effectuated, and the purpose for which the Federal Reserve Banks were organized and for which they were empowered to establish interest and discount rates would be utterly defeated.

Furthermore, the Act expressly provides that rates "shall be fixed with a view to accommodating commerce and business." The maximum rate allowed by a State law might, and in fact in the case of Oregon, would, directly conflict with the rate which, in the opinion of the Federal Reserve Banks and the Board, was necessary in order to properly accommodate business and commerce. If the State law prevailed, the Banks and the Board would be unable to carry out a duty which Congress has expressly required of them. As was said by the Court in First National Bank v. Garlinghaus, supra:

"If the State can in derogation of the Act of Congress limit the capacity or the right of the bank as to the rate of interest it may charge, the State would seem to have plenary power over the whole subject and could so exercise it if they saw proper as to destroy for all practical purposes the value of its franchise."

In view of these considerations it is submitted, that the proposed Oregon usury law substantially conflicts with and is repugnant to the express provisions of Sections 13 and 14 of the Federal Reserve Act and is, therefore, unconstitutional. Farmers & Merchants National Bank v. Deering, supra; Davis v. Elmira Savings Bank, supra.

In the second place, the usury laws of a State, when applied to Federal Reserve Banks, impose a burden upon and impair the effective execution of these operations of the banks which are strictly national in character. It may be fairly said that the power to fix rates of discount and interest is one of the important, if not the most important, functions of the Federal Reserve Banks in view of the purposes for which they were organized. As stated above, the rates of a Federal Reserve Bank are not fixed primarily or in any substantial extent for profit, but to enable the National Government, through the operations of the several Federal Reserve Banks, to control and direct the credit operations of the country, thus insuring sound banking on a nation-wide scale. Surely the Act of a State in attempting to limit and control this function of the Federal agency. - nation-wide in scope - would impose a very severe burden upon that agency and seriously impair the effective execution of the national end for which the agency was created. McCulloch v. Maryland, supra; Easton v. Iowa, supra. As it was said in the Easton case: (p. 238),

"It is not competent for state legislatures to interfere, whether with hostile or friendly intentions, with national banks or their officers in the exercise of the powers bestowed upon them by the general Government."

Finally, it cannot be denied that Congress in establishing the Federal Reserve System has acted in a field which is entirely within its permitted scope of action and has erected a symmetrical and complete system for executing a national policy. It is manifestly evident, therefore, that Congress intended there should be no further legislation with regard to the operations of the Federal Reserve Banks. An attempt on the part of a State to supplement this legislation by imposing a maximum limit upon the rates of interest and discount which a Federal Reserve Bank may charge is an unwarrantable and unconstitutional interference on the part of the State. As was said by the Supreme Court in Prigg v. Pennsylvania, supra: (p. 617)

"If Congress have a constitutional power to regulate a particular subject, and they do actually regulate it in a given manner, and in a certain form, it cannot be, that the state legislatures have a right to interfere, and as it were, by way of complement to the legislation of Congress, to prescribe additional regulations, and what they may deem auxiliary provisions for the same purpose. In such a case, the legislation of Congress, in what it does prescribe, manifestly indicates, that it does not intend that there shall be any further legislation to act upon the subject-matter. Its silence as to what it does not do, is as expressive of what its intention is, as the direct provisions made by it."

It should be remembered, however, that member national banks are subject to the provisions of the National Bank Act and that member State banks are subject to the usury laws of the various States wherein they are located.

M. B. ANGELL.

FEDERAL RESERVE BOARD

WASHINGTON

October 14,1920.
X-2028

Dear Sir:

The Federal Reserve Board announces the following changes in its staff:

Mr. W.T. Chapman, Secretary, has resigned, effective November 1, 1920.

Mr. W.W. Hoxton, Executive Secretary of the Board, has been appointed Secretary, effective November 1, 1920, and has been designated Acting Secretary for the period October 16th to November 1st.

Mr. R.G. Emerson, Assistant Secretary of the Board, has been appointed Assistant to the Governor, effective October 16, 1920.

Mr. Walter L. Eddy has been appointed Assistant Secretary of the Board, effective October 16, 1920.

Mr. James F. Herson, Chief Federal Reserve Examiner of the Board, has been appointed Chief of the Division of Examination, succeeding Mr. W.W. Paddock, resigned. Mr. Herson will have the dual titles of Chief Federal Reserve Examiner and Chief of the Division of Examination.

Very truly yours,

Governor.

To Chairmen of all F.R. Banks

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

X-2029

For immediate release

October 14,1920,

The Federal Reserve Board announces the following changes in its staff:

Mr. W.T. Chapman, Secretary, has resigned, effective November 1, 1920.

Mr. W.W. Hoxton, Executive Secretary of the Board, has been appointed Secretary, effective November 1, 1920, and has been designated Acting Secretary for the period October 16th to November 1st.

Mr. R.G. Emerson, Assistant Secretary of the Board, has been appointed Assistant to the Governor, effective October 16th, 1920.

Mr. Walter L. Eddy has been appointed Assistant Secretary of the Board, effective October 16th, 1920.

Mr. James F. Herson, Chief Federal Reserve Examiner of the Board, has been appointed Chief of the Division of Examination, succeeding Mr. W.W. Paddock, resigned. Mr. Herson will have the dual titles of Chief Federal Reserve Examiner and Chief of the Division of Examination.

FEDERAL RESERVE BOARD

WASHINGTON

October 18,1920.
X-2030

Subject: Uniformity in method of handling inter-Reserve Bank transactions through the Gold Settlement Fund.

Dear Sir:

In order to secure uniformity and to eliminate confusion, the Board requests that, commencing as soon as it meets with the convenience of the Federal Reserve Banks, but not later than November 1, 1920, all inter-Reserve Bank transactions through the Gold Settlement Fund, unless otherwise directed by the Board, be made through the daily Gold Fund Clearing, with the following exceptions which shall always be made by direct transfer through the Federal Reserve Board:

1. Payments on account of all inter-Federal Reserve Bank rediscounts, including sales of acceptances whether or not endorsed by the selling Bank when such acceptances have been sold from the portfolio of the selling Bank.

2. All transfers on account of maturing rediscounts and advance payments and rebates of rediscounts.

3. Transfers of funds for account of the Treasurer of the United States.

The above exceptions have been provided to enable the Board to be promptly advised of the effect of large inter-district movements of gold upon the reserve position of the Federal Reserve Banks in connection with the arranging of inter-Reserve Bank rediscounts, and also in order that the Board may be advised of changes in the status of rediscounts between Reserve Banks.

It is also requested:

1. That all telegrams covering payment on account of maturing rediscounts and advance payments and rebates of rediscounts by direct transfers through the Gold Settlement Fund be dispatched to reach the Board not later than 3.30 p.m., (11.30 a.m. Saturdays), Washington time, in order that there may be no necessity for any bank to reopen its books after closing for the day to make entries incident to such transactions.

2. That all other telegrams to the Board requesting payments to other Federal Reserve Banks by direct transfer through the Gold Settlement Fund be expedited as much as possible.

Very truly yours,

Assistant to Governor.

To Chairmen of all F.R. Banks.

X-2031

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

Release for SUNDAY MORNING PAPERS
October 17, 1920.

October 16, 1920.

In view of the representations which have recently been made to the Board as to the unavailability of credit in agricultural sections the Board requested information concerning credit conditions throughout the Country from the Chairmen and Governors of Federal Reserve Banks at their usual autumn conference here this week. The Board is advised that credit has been steadily available for the successive seasonal requirements of agriculture, as well as for the needs of commerce and industry, and that there is no ground for expecting that its availability for these purposes will not continue. The present improved credit situation is due in part to the timely steps taken last spring, following conferences between the Board and Governors and Directors of Federal Reserve Banks to provide credit for crop moving requirements, and in part to the subsequent improvement in transportation reported from all districts except in a few localities.

Between January 2 and October 1 of the present year about 800 leading member banks from all sections of the country which report their condition to the Board weekly and which represent approximately 70 per cent of member bank resources, have increased their loans for agricultural, industrial and commercial purposes by an amount exceeding $1,800,000,000. This great increase in the credit extended to their customers has in the main been made possible by the accommodation extended member banks by the Federal Reserve Banks.

During the same period, the twelve Federal Reserve Banks have increased their holdings of agricultural and commercial paper by more than $500,000,000, and from January 23 to October 1, 1920 increased their issues of Federal Reserve notes by over $460,000,000. At the same time, Federal Reserve Banks having surplus funds have extended accommodation to Federal Reserve Banks in agricultural and livestock districts by means of discounts, aggregating on October 1, over $225,000,000.

The disturbances in price and demand which have recently manifested themselves in markets for various agricultural and other commodities, not only in the United States but in other countries as well, are inevitable and unavoidable consequences of the economic derangements occasioned by the World War. The United States continue to have a heavy volume of exports although foreign demand for certain agricultural staples has somewhat decreased. But the chief market for our raw and manufactured products is at home, and our present huge crops of immense value may be expected gradually and in regular course to move from producers to consumers. The recent census, reckoning our population at 105,000,000 emphasizes anew our own capacity as consumers irrespective of the demands of other countries.

X-2033

BY-LAWS OF THE FEDERAL RESERVE BOARD

Article I.

The Chairman.

The Secretary of the Treasury, as Chairman of the Board, shall preside at all meetings when present. In the absence of the Chairman, the Governor shall act as presiding officer. In the absence of both the Chairman and the Governor, the Vice-Governor shall preside, and in the absence of all three such officers, the remaining member of the Executive Committee shall preside.

Article II.

The Governor.

Sec. 1. The Governor of the Federal Reserve Board shall be the active executive officer thereof; subject, however, to the supervision of the Board and to such rules and regulations as may be incorporated herein or may from time to time, by resolution, be established.

Sec. 2. The Governor shall have general charge of the executive and routine business of the Board not specifically assigned under the by-laws or by resolution of the Board to any individual member or committee thereof, and shall have supervision of the Board's staff, including promotions, appointments, salaries and dismissals.

Sec. 3. It shall be the duty of the Governor to oversee and control the submission of statements to the press expressive of the Board's policy or descriptive of its action.

Article III.

The Vice-Governor.

Sec. 1. In the absence or disability of the Governor, his powers shall be exercised and his duties discharged by the Vice Governor, and in the absence or disability of both of these officers, such powers shall be exercised and such duties discharged by the remaining member of the Executive Committee.

Sec. 2. It shall be the duty of the Vice Governor to cooperate with the Governor in the administration of the executive business of the Board.

Article IV.

The Executive Committee.

Sec. 1. There shall be an Executive Committee of the Board consisting of three members, which shall include the Governor and Vice-Governor and one other. The third member shall be nominated and elected at a regular meeting of the Board. Members of the Board shall serve as far as practicable in rotation and for periods to be fixed by the Board from time to time. Two members shall constitute a quorum for the transaction of business.

Sec. 2. It shall be the duty of the Executive Committee of the Board to transact all business of an administrative nature which can be transacted in accordance with principles or policies already established by the Board, and such as may be delegated to it from time to time; to review and approve important correspondence involving the expression of opinions or decisions of the Board, and to prepare and make recommendations governing the conduct of the Board's business.

Article V.

The Secretary and Assistant Secretaries.

Sec. 1. The Board shall appoint a Secretary and one or more Assistant Secretaries.

Sec. 2. The Secretary shall attend each meeting of the Board and shall keep an accurate record of its proceedings, and shall conduct such correspondence as may be assigned to him by the Board or the Governor. He shall be Secretary of all standing committees of the Board and shall perform such other duties as may be assigned to him by the Governor.

Sec. 3. The Secretary shall have custody of the seal, and, acting under the authority of the Board, shall have power to affix the same to all instruments requiring it. Such instruments shall be attested by the Secretary.

Sec. 4. The Assistant Secretary designated by the Board or by the Secretary shall exercise the powers and discharge the duties of the Secretary in his absence or disability. The Assistant Secretaries shall perform such other duties as may be assigned to them from time to time by the Board or by the Secretary of the Board.

Article VI.

Assistant to the Governor.

Sec. 1. The Board may appoint an Assistant to the Governor.

Sec. 2. The Assistant to the Governor shall perform such duties as shall be assigned to him by the Governor.

Sec. 3. The Assistant to the Governor shall have power to sign checks of the Federal Reserve Board withdrawing funds from the Gold Settlement Fund as described in Article VIII of these by-laws, and requisitions upon the Comptroller of the Currency for the delivery of Federal Reserve notes to the respective Federal Reserve Agents or to their order and Federal Reserve Bank notes to the respective Federal Reserve Banks or to their order as described in Article IX of these by-laws, such checks and requisitions to be countersigned by the Governor or acting executive officer of the Board.

Article VII.

The Fiscal Agent and Deputy Fiscal Agent.

Sec. 1. The Board shall appoint a Fiscal Agent and a Deputy Fiscal Agent. The duty of the Fiscal Agent shall be to collect and deposit all moneys receivable by the Board with the Treasurer of the United States, to be placed in a special fund established on the books of the Treasurer for the Federal Reserve Board. The Deputy Fiscal Agent shall perform the duties of the Fiscal Agent during his absence or disability.

Sec. 2. The Fiscal Agent and Deputy Fiscal Agent shall each execute a separate bond with surety satisfactory to the Board.

Sec. 3. Payments of expenses and other disbursements of the Board shall be made by the Fiscal Agent upon proper vouchers out of moneys advanced to him by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by Section 5 of this Article. In the absence of the Fiscal Agent payment of expenses and other disbursements shall be made by the Deputy Fiscal Agent upon proper vouchers out of moneys advanced to the Fiscal Agent by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by Sections 5 and 6 of this article.

Sec. 4. The Fiscal Agent shall prepare a quarterly account in such form as shall be approved by the Comptroller of the Treasury and, after approval by the Governor, such quarterly account shall be submitted to the Auditor for the State and other Departments. Such account shall cover payments of expenses and other disbursements made by both the Fiscal Agent and the Deputy Fiscal Agent.

Sec. 5. The Governor shall, when necessary, make requisition on the Treasurer of the United States for the advance of such sums to the Fiscal Agent as may be necessary from the Federal Reserve Board fund.

Sec. 6. The Deputy Fiscal Agent in making disbursements of the Board upon proper vouchers out of the moneys advanced to the Fiscal Agent shall sign against funds to the official credit of the Fiscal Agent with the Treasurer of the United States in the name of the Fiscal Agent by himself as Deputy Fiscal Agent.

Article VIII

Gold Settlement Fund and Federal Reserve Agents' Fund

All funds deposited by or for account of the respective Federal Reserve Agents in the Federal Reserve Agents' fund of the Federal Reserve Board and all funds deposited by or for account of the respective Federal Reserve Banks in the Gold Settlement Fund of the Federal Reserve Board shall be held on deposit with the Treasurer of the United States and shall be subject to withdrawal only by check of the Federal Reserve Board signed by the Assistant to the Governor, or by the Secretary or an Assistant Secretary and countersigned by the Governor or acting executive officer of the Board.

Article IX.

Requisition for Delivery of Federal Reserve Notes

Requisitions upon the Comptroller of the Currency for the delivery of Federal Reserve notes to the respective Federal Reserve Agents shall be signed by the Assistant to the Governor or by the Secretary or an Assistant Secretary and countersigned by the Governor or acting executive officer of the Board.

Article X.

The Seal.

The following is an impression of the seal adopted by the Board.

SEAL

Article XI.

Counsel.

Sec. 1. The Board shall appoint a General Counsel whose duty it shall be to advise with the Board, or any member thereof, as to such legal questions as may arise in the conduct of its business; to prepare, at the Board's request, opinions, regulations, rulings, forms and other legal papers and to perform generally such legal services as he may be called upon by the Board to perform.

Sec. 2. Subject to the direction of the Governor, the General Counsel shall have authority to correspond directly with the Counsel of the various Federal Reserve Banks and to request their opinions as to the interpretation of the local laws of the States included in their respective Federal Reserve Districts. Copies of all such correspondence to be furnished to the Board for its information.

Sec. 3. Whenever it may be deemed advisable, the Board may appoint one or more Associate or Assistant Counsel, or one or more Assistants to Counsel. The duty of such Associate or Assistant Counsel shall be to assist the General Counsel in the performance of his duties and to perform the duty of the General Counsel in his absence. The duty of such Assistant to Counsel or Assistants to Counsel shall be to assist the General Counsel in the performance of his duties.

Sec. 4. The Board may appoint from time to time Consulting Counsel, who may be attorneys at law engaged in outside practice.

Article XII.

Meetings.

Sec. 1. Stated meetings of the Board shall be held on such days of the week at such hours as the Board by majority vote may adopt from time to time. Special meetings of the Board shall be called upon the written request of three members of the Board.

Sec. 2. A majority of the Board shall constitute a quorum for the transaction of business, except that an affirmative vote of at least five members of the Board shall be necessary to require Federal Reserve Banks to rediscount the discounted paper of other Federal Reserve Banks, or to change reserves of banks in outlying districts.

Sec. 3. At all meetings of the Board the following shall be the order of business:

(1) Reading or inspection of the Minutes of the last regular meeting and Minutes of meetings of all committees.
(2) Report of the Governor.
(3) Report of the Secretary.
(4) Reports of the committees or members on assigned business.
(5) Unfinished business.

Article XIII

Information and Publication.

Sec. 1. All persons employed by the Board shall keep inviolate its business, affairs, and concerns, and shall not disclose or divulge the same to any unauthorized person whomsoever, and any employee who shall give information contrary to this by-law shall be liable to immediate dismissal.

Sec. 2. While each member of the Board must determine for himself the propriety or necessity of expressing publicly his individual opinion on any question, members shall not quote publicly the opinion of other members on matters which have not formally been passed upon by the Board.

Sec. 3. There shall be published monthly, under the supervision of a committee of the Board, a bulletin to be known as "The Federal Reserve Bulletin" which shall be the official periodical organ or publication of the Federal Reserve Board.

Sec. 4. No resolutions of a personal character, except upon the death of a member of the Federal Reserve Board while serving as such, shall appear in any publication of the Federal Reserve Board.

Article XIV

Budget and Audit

The executive committee, acting as a committee of Budget and Audit, shall audit the accounts of the Board for each six months' period, and shall report to the Board a tentative budget of expenses for the next succeeding six months.

Article XV.

Amendments.

These by-laws may be amended at any regular meeting of the Board by a majority vote of the entire Board, provided that a copy of such amendments shall have been delivered to each member at least seven days prior to such meeting.

Approved at Board Meeting

October 12,1920.

FEDERAL RESERVE BOARD

WASHINGTON

October 20, 1920.

X-2035

Subject: Apportionment of Administrative and Overhead Expenses between Federal Reserve Banks and their Branches.

Dear Sir:

It is the present practice of some of the Federal Reserve Banks to charge their branches with a portion of the overhead expense at the Head Office on account of salaries of the Governor, the Federal Reserve Agent, and the Auditor, also with certain expenses not actually incurred by the Branch, such as the cost of Federal Reserve currency, including taxes on Federal Reserve Bank note circulation, issued to banks in branch territory, etc.

In order that the Federal Reserve Board may have figures of the expenses of all Federal Reserve Branch Banks on a comparable basis, it is requested that beginning with the month of October the current expense reports, Form 96, of each Federal Reserve Branch Bank be made out so as to show both for the current month and for the period since July 1, 1920, only such expenses as were actually incurred by the Branch, i.e., they should not include any charges connected with the issuance of Federal Reserve currency, for overhead expenses at the Head Office, for the expenses of Federal Advisory Council, Governors' and Federal Reserve Agents' Conferences, or for the maintenance of the Federal Reserve Board.

Very truly yours,

Governor.

To Chairmen of all F.R. Banks.

X-2037

AMENDMENTS TO THE FEDERAL RESERVE ACT.

The following is a brief explanation of the various amendments to the Federal Reserve Act. It consists of two parts: Part I, which contains a discussion of the various acts which specifically amended the text of the Federal Reserve Act; and Part 2, which contains a discussion of those acts which did not change the text of the Federal Reserve Act but which in effect amended the substance of the Act.

PART I. ACTS SPECIFICALLY AMENDING THE FEDERAL RESERVE ACT.

The following acts specifically amended the Federal Reserve Act.

ACT OF AUGUST 4th, 1914.

Section 27 of the Federal Reserve Act as originally enacted amended Section 9 of the Aldrich-Vreeland Act of May 30, 1908, by re-enacting that part relating to the tax rates on national bank notes secured otherwise than by bonds of the United States. The Act of August 4, 1914 amended Section 27 of the Federal Reserve Act so as to add to the above named section of the Aldrich-Vreeland Act, a proviso authorizing the Secretary of the Treasury to suspend the limitations imposed by Sections 1, 3 and 5 of the Aldrich-Vreeland Act on the issue of such additional national bank notes and to extend the privileges of the Aldrich-Vreeland Act to all qualified State banks and trust companies which had joined the Federal Reserve System or might contract to do so within a limited time. This amendment has become inoperative by reason of the expiration by limitation on June 30, 1915 of the Aldrich-Vreeland Act.

ACT OF AUGUST 15th, 1914.

Reserves.

This act amended Section 19 of the Federal Reserve Act so as to permit State banks or trust companies which were then coming into the System to continue to keep their reserves with other State banks or trust companies during three years within which the change was to be made from the old system to the Federal Reserve System.

ACT OF MARCH 3rd, 1915.

Acceptances.

This Act amended Section 13 (paragraphs 3, 4 and 5) so as to authorize the Federal Reserve Board, in its discretion, to increase the amount of acceptances based on the importation or exportation of goods which a member bank of the System may discount and which a Federal Reserve Bank may rediscount.

ACT OF SEPTEMBER 7th, 1916.

Reserves.

Section 11 was amended by the addition of a new subsection (m) which authorized the Federal Reserve Board, upon an affirmative vote of not less than five, to permit member banks to carry in the Federal Reserve Banks any portion of their reserves then required to be held in their own vaults.

Deposits with Federal Reserve Banks.

Section 13 was amended so as to authorize Federal Reserve Banks to receive on deposit from member banks all checks and drafts payable on presentation, and also for collection maturing bills. Prior to the amendment the Federal Reserve Banks were authorized to receive on deposit only those checks and drafts which were drawn upon solvent member banks and other Federal Reserve Banks. The amendment also authorized any Federal Reserve Bank to receive for purposes of collection as well as exchange checks and drafts payable upon presentation within its district and maturing bills payable within its district.

Rediscounts.

Section 13 was further amended so as to provide that the endorsement by a member bank of notes, drafts and bills of exchange discounted with its Federal Reserve Bank should be deemed to constitute a waiver of demand notice and protest by the member bank as to its own endorsement exclusively. Prior to the amendment member banks were required to execute waivers of demand notice and protest.

Section 13 was further amended so as to specifically provide that certain notes, drafts and bills of exchange having a maturity of ninety days, exclusive of days of grace might be admitted to discount. Prior to this amendment the Statute was silent on the question as to whether the maturity included days of grace.

Section 13 was further amended so as to provide that the discount of notes, drafts and bills of exchange drawn for agricultural purposes or based on live stock and having a maturity not exceeding six months shall be limited to a certain percentage of the total assets of the Federal Reserve Bank. Prior to this amendment such paper was limited to a certain percentage of the capital of a Federal Reserve Bank instead of its total assets.

By another amendment to Section 13 the aggregate of notes, drafts and bills bearing the signature of any one borrower (other than bills of exchange drawn against actually existing values) which may be discounted for a member bank is limited to 10% of the unimpaired capital and surplus of the member bank. Prior to this amendment Federal Reserve Banks were not permitted to discount notes or bills bearing the signature or endorsement of any one person, company, firm or corporation, to an amount in excess of 10% of the capital and surplus of the member bank, whether such person, firm or corporation was the borrower or not.

Acceptances.

Prior to this amendment member banks were permitted to accept only such drafts or bills of exchange as grew out of transactions involving the importation or exportation of goods. This Act amends Section 13 so as to greatly broaden the powers of member banks with regard to acceptances. Under Section 13 as so amended, member banks are permitted to accept drafts or bills of exchange under certain conditions:

(a) Which grow out of transactions involving the importation or exportation of goods;

(b) Which grow out of transactions involving the domestic shipment of goods, provided shipping documents conveying or securing title are attached at the time of acceptance.

(c) Which are secured at the time of acceptance by warehouse receipts or other such documents conveying or securing title covering readily marketable staples;

(d) Drawn (under regulations to be prescribed by the Federal Reserve Board) by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in the respective countries, dependencies or insular possessions.

In enacting this amendment Congress inadvertently omitted from Section 13 that provision which permitted national banks with the approval of the Federal Reserve Board to accept up to 100% of their capital and surplus in transactions involving imports or exports.

Advances to Member Banks.

This Act further amends Section 13 so as to authorize Federal Reserve Banks to make advances to member banks on promissory notes of such member banks for a period not exceeding fifteen days, such notes being secured by notes, drafts, bills of exchange or bankers' acceptances eligible for rediscount or for purchase by Federal Reserve Banks, or by bonds or notes of the United States.

Member Banks as Insurance Agents and Real Estate Brokers.

Section 13 was further amended so as to permit national banks located and doing business in places with a population not exceeding 5,000 inhabitants to act as agents for fire, life or other insurance companies and also to act as brokers or agents for others in making or procuring loans on real estate located within one hundred miles of the place in which the bank is located.

Banking Accounts for Foreign Correspondents.

Section 14, sub-section (e) was amended so as to permit Federal Reserve Banks with the consent of the Federal Reserve Board to open and maintain banking accounts for foreign correspondents or agencies.

Security for Federal Reserve Notes.

Prior to this amendment Federal Reserve notes could be secured only by notes and bills of exchange accepted for rediscount under Section 13. This Act amended Section 16 so as to permit Federal Reserve notes to be secured also by drafts, bills of exchange or acceptances rediscounted under the provisions of Section 13 or bills of exchange endorsed by member banks of any Federal Reserve District and purchased under the provisions of Section 14.

Loans on Real Estate

Section 24 relative to loans on farm lands, was amended so as to permit banks lying contiguous to the lines of a Federal Reserve District to make loans on farm lands within a radius of one hundred miles regardless of district lines and to make loans on other improved and unincumbered real estate within the same district but for not exceeding a period of one year.

Foreign Banking Business

Prior to this amendment national banks were authorized to establish branches in foreign countries or dependencies or insular possessions of the United States. This Act amended Section 25 so as to permit them to either establish such branches or to invest an amount not exceeding 10% of their paid-in capital stock and surplus in one or more corporations incorporated under the laws of the United States or of any State and principally engaged in international or foreign banking.

ACT OF JUNE 21st, 1917.

Branches of Federal Reserve Banks.

Section 3 was amended so as to authorize the Board to permit or require any Federal Reserve Bank to establish branch banks within its district. As so amended, it provides that the number of directors of such branches shall at the option of the Board be not more than seven nor less than three.

Assistants to Federal Reserve Agents

Section 4 was amended so as to provide for the appointment of assistants to the Federal Reserve Agents who shall have power to act in the agent's name and stead during his absence or disability. The office of the deputy reserve agent formerly held by one of the Class "C" directors was abolished.

Membership of State Banks and Trust Companies.

Section 9 relating to the admission of State banks and trust companies to the Federal Reserve System was amended so as to provide that subject to the provisions of the Federal Reserve Act and to the regulations of the Board made pursuant thereto, any State bank or trust company which becomes a member of the Federal Reserve System, shall retain its full charter and statutory rights and may continue to exercise all corporate powers granted to it by the State in which it was created and shall be entitled to all the privileges of member banks; provided, however, that no Federal Reserve Bank may discount for such member bank any note, draft or bill of exchange of any one borrower who is liable to the member bank for more than 10% of its capital and surplus.

The amendment took away from the Comptroller of the Currency the power granted by section 21 to examine State banks and trust companies which are member banks, but provided that such banks shall be subject to examinations by direction of the Federal Reserve Board or of the Federal Reserve Bank by examiners selected or approved by the Federal Reserve Board. Examinations by such authorities when approved by the directors of the Federal Reserve Bank may be accepted in lieu of examinations by examiners approved by the Federal Reserve Board. Reports of condition and of payments of dividends must be made to the Federal Reserve Bank instead of the Comptroller of the Currency as in the past. State banks and trust companies which have become members are authorized to withdraw from the Federal Reserve System after six months' written notice.

Clearing and Collection for Non-member Banks.

Section 13 was amended so as to authorize Federal Reserve Banks solely for purposes of collection or exchange to receive deposits of currency, checks, drafts and maturing notes or bills from any non-member bank or trust company which maintains with the Federal Reserve Bank a balance sufficient to offset the items in transit held for its account by the Federal Reserve Bank. Section 13 as amended also authorizes any member bank to make reasonable charges to be determined and regulated by the Federal Reserve Board but in no case to exceed 10¢ per $100 or fraction thereof for the collection or payment of checks and drafts and remission thereof by exchange or otherwise. Federal Reserve Banks, however, are not subject to these charges.

Acceptances by Member Banks.

Section 13 was further amended so as to restore that provision authorizing the Federal Reserve Board to permit member banks to accept drafts and bills of exchange drawn against shipments of goods or against warehouse receipts covering readily marketable staples up to 100% of the capital and surplus of the accepting bank. This provision has been inadvertently omitted from Section 13 by the amendment of September 7, 1916.

Foreign Agencies of Federal Reserve Banks.

Section 14, sub-section (e) was amended so as to authorize the Federal Reserve Board to give its consent or require reserve banks to open and maintain accounts in foreign countries, etc, and also to provide for participation accounts.

Issue of Federal Reserve Notes Against Gold.

Section 16 was amended so as to authorize the issue of Federal Reserve notes upon the security of gold or gold certificates and so as to provide that gold or gold certificates held by the Federal Reserve Agent as collateral security shall be counted as part of the gold reserve which the Federal Reserve Bank is required to maintain against its notes in actual circulation. As so amended this section also authorizes the issue of Federal Reserve notes upon the security of fifteen-day notes of member banks secured by eligible commercial paper or by bonds or notes of the United States.

Deposits of Gold with the Treasurer or Assistant Treasurer.

Section 16 was further amended so as to authorize the Treasurer or any Assistant Treasurer of the United States to receive deposits of gold or gold certificates when tendered by any Federal Reserve Bank or Federal Reserve Agent for credit to its or his account with the Federal Reserve Board.

Deposits of Government Bonds with the Treasurer.

Section 17 was amended so as to repeal any provision of law requiring any national bank to maintain a minimum deposit of bonds with the Treasurer of the United States.

Reserves.

Section 19 was amended so as to provide for an immediate transfer of all reserves to Federal Reserve Banks. Under this section the total amount of reserves to be maintained by a member bank must be deposited with the Federal Reserve Bank of its district. The amount of these reserves is as follows:

	Demand Deposits	Time Deposits
Country Banks	7%	3%
Reserve City Banks	10%	3%
Central Reserve City Banks	13%	3%

Member banks are no longer required to maintain any reserves in their own vaults.

Balances with Non-member Banks

Section 19 formerly provided that no member bank should keep on deposit with "any nonmember bank" any sum in excess of 10% of its own capital and surplus. That restriction necessarily applied to balances with foreign banks as well as to balances with non-member State banks and trust companies. It was amended so as to apply only to deposits with "any State bank or trust company which is not a member bank."

Salaries or Fees of Directors, Officers or employees.

Section 22 relating to the salaries or fees paid to directors, officers or employees of member banks was amended by the addition of provisos to the effect that directors, officers, employees or attorneys shall not be prohibited from receiving the same rates of interest paid to other depositors of the bank, and that notes, drafts, bills or other evidences of debt executed or endorsed by directors or attorneys of the bank may be discounted with such bank on the same terms and conditions as other notes, drafts, bills or other evidences of debt upon the affirmative vote or written assent of a majority of the members of the Board of directors of such member bank.

ACT OF SEPTEMBER 26th, 1918.

Election of Federal Reserve Bank Officers.

Section 4 of the Federal Reserve Act is amended so as to leave to the discretion of the Federal Reserve Board the grouping of the member banks in each district into three general groups or divisions, without the old requirement that each group shall contain, as nearly as possible, one-third of the aggregate number of the banks in the district. Section 4 is further amended so as to permit each member bank, by a resolution of its board of directors or by an amendment to its by-laws, to authorize its president, cashier, or some other officer to cast its vote in elections of Federal Reserve Bank Directors in place of the old method of electing by ballot a district reserve elector at a regularly called meeting of the Board of

Directors of each member bank in the district to cast its vote at a particular time. A provision is added that no officer or director of a member bank shall be eligible to serve as a Class A director unless nominated and elected by banks which are members of the same group as the member bank of which he is an officer or director and that no person who is a director or officer of more than one member bank shall be eligible for nomination as a Class A director, except by banks in the same group as the bank having the largest aggregate resources of any of those of which such person is a director or officer.

Fiduciary Powers of National Banks.

Section 11 (k) is amended and re-enacted so as to authorize the Federal Reserve Board to permit national banks to act as guardians of estates, assignees, receivers, committees of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the particular national bank making the application is located, in addition to the right granted under the old Act to act as trustee, executor, administrator, and registrar of stocks and bonds. Moreover, it is provided that it shall not be deemed to be "in contravention of State or local law" to permit the exercise of such powers by national banks whenever the laws of the particular State authorize or permit the exercise of such powers by State banks, trust companies, or other corporations competing with national banks. It is prescribed that all assets held in any fiduciary capacity shall be segregated from the general assets of the bank; that a separate set of books and records shall be kept; that such books shall be open to the inspection of the State authorities; that national banks shall not receive in their Trust Departments deposits of current funds subject to check, or deposits of checks, drafts or similar instruments, that trust funds deposited with the general assets of a bank shall be properly secured; that the owners of such funds shall have a lien on the securities set apart to protect these funds and that national banks acting as fiduciaries shall comply with the State requirements as to the deposit of securities with the State authorities; that national banks shall not be required to execute bonds if State corporations under similar circumstances are exempt from such requirements; that national banks shall have the power to execute such bonds; that oaths or affidavits required may be executed by an officer of a national bank; that it shall be unlawful for a national bank to lend trust funds to any bank officer, director or employee. In passing upon applications the Federal Reserve Board is required to take into consideration the amount of capital and surplus of the applying bank and other material facts, and is prohibited from granting such permits to national banks having a capital and surplus less than is required of State banking institutions under State law.

Issuance of $500-$1,000-$5,000-$10,000
Federal Reserve Notes.

Section 16 is amended so as to permit the issuance of Federal Reserve notes in denominations of $500; $1,000; $5,000 and $10,000, in addition to the denominations formerly permitted.

Reserves of National Banks in Outlying Districts.

Section 19 is amended so as to permit the Federal Reserve Board, upon the affirmative vote of five members, to require national banks located in outlying districts of a reserve city or in territory added to such city by the extension of its corporate charter, to maintain only such reserves as are required to be maintained by country banks; and to require national banks similarly located in central reserve cities, or in territory similarly added to such cities, to maintain only such reserves as are required to be maintained by country banks or by banks in reserve cities.

Amendments to Section 22.

Section 22 is amended so as to clarify and modify the existing provisions and is subdivided into subsections (a), (b), (c), (d), (e), and (f).

Loans and Gratuities to Bank Examiners.

Section 22 (a) as amended prohibits loans and gratuities to bank examiners and provides penalties for violation of that provision.

Disclosures of Confidential Information.

Section 22(b) provides that no national bank examiner shall perform any other service for compensation for any bank, or officer, director, or employee thereof. It further forbids disclosures of confidential information by examiners, public or private, and provides a penalty for violation of the provisions of that subsection.

Commissions on Obtaining Loans.

Section 22(c) prohibits any officer, director, employee, or attorney, of a member bank from receiving a commission or other thing of value for procuring loans or purchases or discounts of any commercial paper or similar obligations.

Purchases from and Sales to Directors.

Section 22(d) imposes the conditions under which a member bank may contract for or purchase or sell securities or other property where the other party in interest in the transaction is a director of such bank.

Interest on Deposits of Officers, Directors or Employees.

Section 22(e) prohibits the payment of a greater rate of interest to any officer, director, employee, or attorney than is paid to any other depositor.

Liability for Violating Provisions

Section 22(f) provides that directors and officers of member banks knowingly violating or permitting violations of Section 22, shall be liable in their personal and individual capacity for all damages which the member bank, as a shareholder, or any other persons, may sustain in consequence thereof.

Over-certification of Checks and Embezzlements, etc.,

Sections 5208 and 5209, Revised Statutes, which penal sections relating to the over-certification of checks, embezzlement, abstraction or wilful misapplication of moneys, funds, or credit of national banks by officers, directors, agents or employees thereof and to false entries in books, reports, or statements of national banks with intent to injure or defraud, on the part of any officer, director, agent or employee of a national bank, are made applicable to similar acts committed by officers, directors, agents or employees of Federal Reserve Banks.

ACT OF MARCH 3rd, 1919.

Earnings of Federal Reserve Banks.

Section 7 of the Federal Reserve Act is amended so as to permit Federal Reserve Banks to accumulate a surplus of 100% instead of 40% as heretofore provided, before paying the excess of such net earnings to the United States as a franchise tax.

Eligibility of ex-Board Members to serve Member Banks.

Section 10 is amended so as to permit appointive members of the Federal Reserve Board to serve member banks after they have served the full term for which they were appointed.

Rediscount of Loans in Excess of 10% secured by Government Bonds or Notes

Section 11(m) which formerly authorized the Federal Reserve Board to permit member banks to carry with Federal Reserve Banks any portion of their reserves required by Section 19 to be held in their own vaults is stricken out and there is substituted therefor a new section 11(m) which authorizes the Federal Reserve Board, upon the affirmative vote of five members, to permit Federal Reserve Banks to discount for member banks, paper bearing the signature or endorsement of any one borrower in excess of 10%, but in no case to exceed 20% of the member bank's capital and surplus, provided that all such paper is secured by a like face amount of bonds or notes of the United States, issued since April 24, 1917. It was designed to broaden the discount powers of Federal Reserve Banks to correspond to the lending powers of national banks as enlarged by the Act of September 24, 1918, which amended the National Bank Act so as to permit national banks, under regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury, to lend to one person an amount in excess of 10 % of their capital and surplus, provided such loans are secured by United States bonds or certificates of indebtedness issued after April 24, 1917. In effect, it amends Sections 9 and 13. It lapses after December 31, 1920.

Engraving Signatures on National Bank Notes.

Section 5172 Revised Statutes is amended so as to authorize national bank notes to be signed by the engraved signatures of the president or vice-president. This, in effect, amends Section 27 of the Federal Reserve Act.

ACT OF SEPTEMBER 17th, 1919.

Section 25 was amended so as to authorize any national bank, until January 1, 1921, without regard to the amount of its capital and surplus, to invest not exceeding 5% of its capital and surplus in the stock of one or more corporations chartered under Federal or State law and principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate exports from the United States.

ACT OF DECEMBER 24, 1919.

"Edge Corporations"

A new section was added to the Act - Section 25(a) which provides for the Federal incorporation of institutions to engage in international or foreign banking or other financial operations.

ACT OF APRIL 13, 1920.

Graduated Discount Rates

Section 14 is amended so as to authorize Federal Reserve Banks, subject to the approval, review and determination of the Federal Reserve Board to establish discount rates graduated or progressed on the basis of the amount of the advances and discount accommodations extended by the Federal Reserve Bank to the borrowing bank.

PARTIII. ACTS IN EFFECT AMENDING THE FEDERAL RESERVE ACT

The following Acts either directly affect the Federal Reserve System in some way or amend the Federal Reserve Act without specifically making any textual changes in the Act itself.

CLAYTON ANTI-TRUST ACT

The Clayton Anti-Trust Act, approved October 15, 1914, as amended by the Kern Amendment approved May 15, 1916, charges the Federal Reserve Board with the duty of enforcing that part of Section 8 of the Clayton Act which relates to interlocking directorates, and vests in the Federal Reserve Board power to permit a person to serve on not more than three banks coming within the prohibitions of the Clayton Act. On May 26, 1920, the Kern Amendment was amended so as to authorize the Federal Reserve Board to grant permits to private bankers to serve not more than two of such banks.

AMENDMENT TO POSTAL SAVINGS ACT

Section 2 of the amendment to the Postal Savings Act approved May 18, 1916, requires postal savings funds to be deposited with member banks of the Federal Reserve System instead of non-member banks, if there are any duly qualified member banks in the city or town where such postal savings deposits are made.

FARM LOAN ACT

Section 5 provides that that part of the capital of any Federal land bank which is required to be held in quick assets may consist of deposits in member banks of the Federal Reserve System.

Section 13 authorizes Federal land banks to deposit their securities and current funds subject to check with any member bank of the Federal Reserve System.

Section 27 authorizes the Federal Reserve Banks and member banks of the Federal Reserve System to buy and sell farm loan bonds.

THE LIBERTY BOND ACTS

Deposits of Proceeds of Sales of Liberty Bonds.

Section 7 of the First Liberty Bond Act, approved April 24, 1917, Section 8 of the Second Liberty Bond Act, approved September 24, 1917, and Section 8 of the Third Liberty Bond Act, approved April 4, 1918, authorizes the Secretary of the Treasury to deposit with banks and trust companies, proceeds arising from the sale of Liberty bonds, certificates of indebtedness and war savings stamps and exempts such deposits from the reserve requirements of national banks or member banks.

THE WAR FINANCE CORPORATION ACT

Discount of Notes of Member Banks when secured by Bonds of the War Finance Corporation

Section 3 of the War Finance Corporation Act, approved April 5, 1918, authorizes the Federal Reserve Banks to discount direct obligations of member banks secured by bonds of the War Finance Corporation and to use notes so secured, if it becomes necessary, as a basis for Federal Reserve notes.

Depositaries and Fiscal Agents of War Finance Corporation

Section 15 of the War Finance Corporation Act, approved April 5, 1918, as amended by the Victory Loan Act, approved March 3, 1919, authorizes the War Finance Corporation to deposit its reserve fund in member banks or in Federal Reserve Banks, and authorizes Federal Reserve Banks to act as fiscal agents and depositaries of the War Finance Corporation.

Section 20 amended Section 5202 of the Revised Statutes by adding a sixth exception covering liabilities incurred under the provisions of the War Finance Corporation Act. Inasmuch as Section 13 of the Federal Reserve Act had amended and reenacted Section 5202 of the Revised Statutes, this in effect was an amendment to Section 13 of the Federal Reserve Act.

THE PITTMAN ACT

Issuances of $1.00 and $2.00 Federal Reserve Bank Notes

The Act, approved April 23, 1918, known as the "Pittman Act" or "An Act to conserve the Gold Supply", etc., provides that the Federal Reserve Banks may be permitted or required by the Federal Reserve Board, at the request of the Secretary of the Treasury, to issue Federal Reserve Bank notes in any denomination, including denominations of $1.00 and $2.00 against the security of United States certificates of indebtedness or of one-year United States gold notes.

TRADING WITH THE ENEMY ACT

Control of Foreign Exchange Transactions

The Trading with the Enemy Act, as amended by the Act approved September 24, 1918, authorizes the President, to use any agency he might select to control foreign exchange transactions. Under authority of this Act, the Federal Reserve Board was designated to perform this function as the agency of the Secretary pf the Treasury.

ACT OF OCTOBER 22,1919.

This Act amended Section 5202 of the Revised Statutes by adding a seventh exception covering liabilities created by the endorsement of accepted bills of exchange payable abroad, actually owned by the endorsing bank and discounted at home or abroad. Inasmuch as Section 13 of the Federal Reserve Act had amended and re-enacted Section 5202 of the Revised Statutes, this amendment in effect was an amendment to Section 13 of the Federal Reserve Act.

TRANSPORTATION ACT OF 1920.

Section 210(d) of the Transportation Act of 1920, approved February 28, 1920, provides that the Interstate Commerce Commission or the Secretary of the Treasury may call upon the Federal Reserve Board for advice and assistance with respect to any loan from the United States to a railroad under authority of Section 210 of the Act, or any application for such loan.

APPROPRIATION ACT OF MAY 29, 1920.

Abolition of Subtreasuries

That part of the Appropriation Act approved May 29, 1920, which relates to the "Independent Treasury" provides for the abolition of the subtreasuries from and after July 1, 1921, and authorizes the Secretary of the Treasury, in his discretion, to transfer any or all of the duties and functions of the assistant treasurers or the subtreasuries to the Treasurer of the United States, or the mints or assay offices, or to utilize any of the Federal Reserve Banks acting as depositaries or fiscal agents of the United States, for the purpose of performing any or all of such duties and functions, notwithstanding the limitations of Section 15 of the Federal Reserve Act. The Secretary of the Treasury is further authorized to assign any or all the rooms, vaults, equipment and safes or space in the buildings used by the subtreasuries to any Federal Reserve Bank acting as fiscal agent of the United States.

FEDERAL RESERVE BOARD

WASHINGTON

October 23,1920.
X-2038

CONFIDENTIAL

Dear Sir:

There are enclosed herewith   copies of the confidential instructions issued by the Secretary of the Treasury under date of October 19, 1920, with respect to the exchange and redemption of United States coin and the performance by Federal Reserve Banks of certain other duties and functions heretofore performed by the Sub-treasuries. The Federal Reserve Banks desiring to operate under these instructions should advise the Board, and upon notification from the Board the Treasury will give the necessary specific instructions in each case and notify the Treasurer and Assistant Treasurer concerned.

There is also enclosed for your confidential information a copy of a detailed letter under date of October 19, 1920, from Assistant Secretary of the Treasury Gilbert to Governor Morss, of the Federal Reserve Bank of Boston, relative to the discontinuance of the Boston Sub-treasury and the transfer of certain of its duties and functions to the Federal Reserve Bank of Boston, which it is expected will be accomplished on or about October 25th.

Very truly yours,

Governor.

Enclosures.

To Chairmen of all F.R. Banks.

October 19,1920.

CO^PY

Charles A. Morss, Esq.,
Governor, Federal Reserve Bank,
Boston,Mass.

My dear Governor:

I have already acknowledged, under date of September 27th, the receipt of the letter of September 22, 1920, signed by you and Mr. Curtiss, transmitting a memorandum as to transferring to the Federal Reserve Bank certain duties and functions of the subtreasury in Boston, together with a statement of the duties which your bank will be ready to perform when the transfer is made. You have already received and are operating under the Secretary's general instructions of August 30,1920, as to the handling of United States paper currency, and I am sending under separate cover copies of the new regulations governing the handling of United States coin and other matters growing out of the discontinuance of the subtreasuries. The suggestions made in the memorandum from the Federal Reserve Bank of Boston have already been covered in a large measure by these regulations, but I am glad to take them up, to the extent that they are not already covered, in the order in which they appear in the memorandum. You will be further advised by letter or telegram, of the effective date of discontinuance of the Boston subtreasury, and of course if any difficulties arise in connection with the actual discontinuance and transfer, they may be taken up direct with the Treasury or through the Committee from the Treasury which will be in Boston this week.

It is the intention to assign to the Federal Reserve Bank the space in the Federal building at Boston now occupied by the subtreasury, until such time as the Federal Reserve Bank is able to occupy its new building, and transfersto the new building the work to be performed by its force in the

Federal building. The use of the adding machines, typewriters, scales or weighing apparatus, washing machine and trucks will be transferred to the Federal Reserve Bank, this equipment having been purchased out of funds under the control of this Department for the use of the subtreasury. The furniture, including desks, chairs, miscellaneous cabinets, etc., was purchased out of an appropriation under the control of the Supervising Architect, and appropriate action will be taken to have this furniture assigned to the Federal Reserve Bank during its period of occupancy of the quarters in question.

As already indicated, the Secretary of the Treasury will send a Treasury committee to Boston to make a final examination of the subtreasury at which representatives of the Federal Reserve Bank should be present, and to supervise the transfer of cash and other assets to the Federal Reserve Bank.

On the question of expense, the Treasury accepts as already indicated the alternative suggestion that the Government bear the expense of transportation of United States paper currency and United States coin, on shipments between the Federal Reserve Bank and Treasury offices. Detailed provisions as to such expenses appear in the currency regulations and the coin regulations. The Treasury notes that the Federal Reserve Bank now pays carrying charges on currency and coin shipped to and from member banks, and on currency shipments from non-member banks in the district in payment of remittance letters, and that the Federal Reserve Bank proposes to continue this service. In general, the Treasury feels that, inasmuch as the Federal Reserve Banks, in acting under the regulations as to the handling of United States paper currency and United States coin, will be performing operations formerly performed by Government offices, it is of the utmost importance that the operations be conducted in such a manner that no charge of discrimination, however unfair, may be levelled against the new system. As to the disbursing accounts carried with the subtreasury by the local postmaster and the officers of the United States Courts, it is impossible to give final instructions at the moment, in the absence of definite word from the Attorney General and the Postmaster General, but it is hoped that these accounts may be transferred to the Treasurer of the United States at Washington. All other disbursing accounts carried with the Assistant Treasurer at Boston will be transferred to the Treasurer at Washington.

Any outstanding "to order" gold certificates not redeemed prior to the date on which the transfer is made, may be later presented to the Federal Reserve Bank in Boston for payment, and settlement made through the Gold Settlement Fund if desired, as indicated in the coin regulations.

The Comptroller of the Currency has been consulted as to the return of the unused national bank notes now in the custody of the Assistant Treasurer in Boston, and it is expected that these notes will be returned before the transfer is completed. All uncurrent, light-weight and mutilated coin, will be shipped to the Mint prior to the date on which the transfer occurs. The item of $2456 carried in the Subtreasury accounts as a shortage in currency shipment made in April 1918, is a matter between the Treasury and the Assistant Treasurer, which will not affect the Federal Reserve Bank. It is understood from Mr. Huddleson that you do not desire at this time any of the gold coin now in the subtreasury at Boston, and arrangements have therefore been made to have it shipped prior to the date the transfer is made. Five hundred thousand dollars, ($500,000) in Standard silver dollars will be retained and transferred to you along with the other cash at the time the transfer is made.

The gold certificates carried by the Assistant Treasurer in the Special Fund are now being shipped to Washington, and it is expected that they will all be transferred prior to the date of the discontinuance of the subtreasury.

All balances carried in the subtreasury to the official credit of former Comptrollers of the Currency will be transferred to Washington.

With reference to the un-used stock of Federal Reserve notes now carried in the subtreasury, you are advised that the question of transferring this stock to the Federal Reserve Agent has already been taken up with the Comptroller of the Currency and definite instructions will be forthcoming in a few days. The un-issued bonds carried in the subtreasury will be transferred to the Federal Reserve Bank, Fiscal Agency Department. Provision is also made in the regulations for the custody of securities now carried by the subtreasury, which it is desired to transfer to the Federal Reserve Bank.

The question of the responsibility of the Federal Reserve Banks in performing subtreasury functions is governed in large part by the regulations governing the handling of United States paper currency and coin and miscellaneous matters in relation to the functions now performed by the subtreasuries. Upon the discontinuance of the subtreasury, and transfer of the remaining cash, and other assets, the Federal Reserve Bank will be required, of course, to receipt only for currency, coin, etc., actually delivered to the Federal Reserve Bank. In general, the Treasury feels that it is desirable from every point of view to have the Federal Reserve Banks perform the currency and coin functions as far as possible as a bank operation, and to keep down to the minimum subtreasury functions to be performed as fiscal agent of the United States. It will be the policy of the Treasury not to place the custody of the trust funds in the Federal Reserve Banks except to meet emergencies.

While the matter of cashing checks for disbursing officers desiring currency for pay-roll and other purposes is thought to be fully covered under Department Circular No. 176, dated December 31, the new regulations, copies of which are being sent under separate cover, contain a further paragraph on the subject.

If there are any outstanding receipts on account of redemptions and exchanges of currency or coin at the time the transfer is made, the necessary currency and coin will be transferred to the Federal Reserve Bank to be held in its custody and exchanged for the outstanding receipts when and as presented; therefore a separate receipt will be taken for the aggregate amount of outstanding receipts on account of redemptions and exchanges when the transfer is made.

It is noted that your bank will take over permanently the following employees:

Williston Lincoln	$2,500 per annum
Alfred P. Rexford	2,000 "
Thomas E.C. Robinson	1,800 "
Thomas J. Lally	1,600 "
Thomas L. Shepard	1,600 "
Julia M. Lennon	1,200 "
Mary E. Cameron	1,100 "
John F. Jannessy	1,100 "
Mabel Guild	1,000 "
Irene L. Stebbins	1,000 "
Thomas Farrell	900 "

and further, that under an arrangement made with Mr. Huddleson, you will take over temporarily, for a period not exceeding one year, the following employees, with the understanding that the Department will promptly endeavor to make provision for their employment elsewhere.

C. Toland	$2,500 per annum
C.E. Kelsey	2,250 "
F.J. Small	2,000 "
James F. Dwyer	1,600 "
C.T. Woodman	1,600 "
E.F.P. Hale(Miss)	1,600 "
M.E. Leydon (Miss)	1,500 "
T.F. White	1,200 "
C.E. Anderson	1,000 "

By direction of the Secretary:

Respectfully,

(Signed) S. P. GILBERT, JR.

Assistant Secretary of the Treasury.

FEDERAL RESERVE BOARD

WASHINGTON

October 27,1920.

X-2040

Subject: Eligibility of Paper Incident to Cotton Factorage Business.

Dear Sir:

On page 1054 of the Federal Reserve Bulletin for November, 1919, the Federal Reserve Board published a ruling to the effect that the note of a cotton factor, the proceeds of which are used by the cotton factor to lend to a third party, is finance paper rather than commercial or agricultural paper and is, therefore, ineligible for rediscount, even though the third party to whom such loan is made may use the proceeds for a commercial or agricultural purpose. The Federal Reserve Board has recently been requested to reconsider this ruling.

This ruling has, in effect, been incorporated in the regulations of the Board, Series of 1920, which have just been issued. Section A, paragraph II of Regulation A provides in part as follows:

> "The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for rediscount at a Federal Reserve Bank, has determined that-
>
> (a) It must be a note, draft, or bill of exchange which has been issued or drawn, or the proceeds of which have been used or are to be used in the first instance, in procuring, purchasing, carrying, or marketing goods in one or more of the steps of the process of production, manufacture, or distribution, or for the purpose of carrying or trading in bonds or notes of the United States."

The words "in the first instance" did not appear in the Board's previous regulations and were inserted in Regulation A of the Series of 1920 for the express purpose of making it clear that the making of loans to third parties is a finance, rather than a commercial or agricultural purpose even though it appears that the third parties are to use the funds for commercial or agricultural purposes.

After a very full and careful review of the facts which have been presented to the Board, and of the questions of law involved, the Federal Reserve Board is of the opinion that the ruling as published and as in effect incorporated in the Board's regulations is correct in principle and that under the terms of the Federal Reserve Act as it now stands a contrary ruling is not possible. It is urged that since the loans made by a cotton factor to his customers are merely incidental to the main business of the factor which is the marketing of cotton, and since the marketing of cotton is a commercial business, a cotton factor's note should be considered eligible commercial paper even though the proceeds are loaned to the factor's customers. Under the terms of Section 13 of the Federal Reserve Act, however, the test of eligibility is not the character of the business of the borrower, but is the use of the proceeds of the particular instrument. Inasmuch as the loaning of money is in itself a finance rather than a commercial operation, a note the proceeds of which are loaned by the borrower to a third party is ineligible for rediscount irrespective of the general character of the borrower's business.

The Board desires to call attention to the fact that the ruling does not preclude cotton factor's notes from being eligible under some circumstances. In the first paragraph of the ruling it was said:

> "* * In view of the fact that it is apparent from all the evidence on hand that the circumstances and conditions under which so-called cotton factors' paper is issued vary so much in different cases, it is impossible to give any categorical answer to the question presented, or to make any general ruling that cotton factors' paper as such, is eligible or ineligible for rediscount."

In reiteration of this statement the Board points out again that the fact that a cotton factor is the maker of a note, does not of itself determine the eligibility or ineligibility of the note for rediscount. The test of the eligibility of paper is whether it complies with the terms of the Federal Reserve Act and the Board's regulations, and this in turn involves the question of the use of the proceeds. In last analysis, this is a question of fact and it is the function of the Federal Reserve Banks, rather than of the Federal Reserve Board, to determine questions of fact in the light of the circumstances of particular cases. As was said in the last paragraph of the ruling in question:

> "In order to ascertain the necessary facts it may be proper for a Federal Reserve Bank to require statements or affidavits from the maker of the note as to the exact nature of the transaction out of which it arises. With these principles as a guide, the Federal Reserve Bank must determine the eligibility of any particular paper in the light of the circumstances in which it was issued, and its proceeds disposed of."

In connection with the request made to the Federal Reserve Board that it reconsider its previous ruling, the argument was made that Section 13 of the Federal Reserve Act makes notes of cotton factors eligible for rediscount when secured by cotton, irrespective of whether or not the proceeds have been or are to be, used for commercial or agricultural purposes. It was urged that this is the effect of that part of Section 13 which immediately follows the definition of eligible commercial and agricultural paper and which provides that -

> "Nothing in this Act contained shall be construed to prohibit <u>such</u> notes, drafts and bills of exchange, secured by staple agricultural products, or other goods, wares or merchandise from being eligible for <u>such</u> discount; but such definition shall not include notes, drafts, or bills covering

merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds or other investment securities, except bonds and notes of the Government of the United States."

The Board is of the opinion that the word "such", qualifying notes, drafts and bills of exchange, in the clause quoted must necessarily be construed as referring to notes, drafts and bills of exchange defined above, that is, notes, drafts and bills of exchange which are eligible by reason of the fact that the proceeds have been or are to be used for agricultural, industrial or commercial purposes. The Board is of the opinion, therefore, that the provision quoted is merely a declaration that paper which is eligible for rediscount by reason of the use of the proceeds is not made ineligible by reason of being secured, and that the provision cannot be construed, as the Board was urged to construe it, to make eligible for rediscount paper which is secured in the manner specified but which is not eligible commercial or agricultural paper as defined in the preceding part of the Section.

This being so, the precise meaning of the phrase "covering merely investments" is of no importance in the case under consideration. The clause in which this phrase appears provides in effect that "notes, drafts and bills covering merely investments" shall under no circumstances be eligible. This cannot, of course, be construed as an affirmative enactment making eligible all paper other than that "covering merely investments." The clause merely adds another condition with which paper must comply in order to be eligible for rediscount. Since the Board has determined that paper, the proceeds of which have been used to lend to a third party does not meet the requirement as to the use of the proceeds for a commercial or agricultural purpose, such paper is ineligible irrespective of whether or not it is paper "covering merely investments".

The Federal Reserve Board has frequently suggested that if the cotton factors loans to customers were evidenced by the customers' notes these notes could be endorsed and discounted by the factor and might then be eligible for rediscount by Federal Reserve Banks upon satisfactory evidence that the proceeds of the loans represented by the notes have been, or are to be, used for agricultural or commercial purposes. The Board has also had occasion to rule recently that drafts drawn by cotton growers, accepted by a cooperative marketing association organized for the purpose of marketing the cotton delivered by the growers, and discounted by the growers at their banks, may be eligible for rediscount by Federal Reserve Banks when it is shown that the proceeds of the accepted drafts have been, or are to be, used by the growers for agricultural purposes. The principle of this ruling is, of course, applicable to cotton factors as well as to cooperative marketing associations, so that under it drafts of cotton producers or owners drawn upon and accepted by the cotton factors may be eligible for rediscount by Federal Reserve Banks when discounted by the drawers. This would not be true, however, if the factor should retain the drafts after acceptance and should discount them at his bank. In that case the factor and not the producer would be the borrower in the first instance and the use of the proceeds by the factor would determine the eligibility of the drafts.

The Board understands that it has always been the practice in the cotton factorage business for the factor's loans to his customers to be evidenced merely by open accounts, and it has been said that it is not possible to change that practice, established by long custom, so as to require customers to give their notes to evidence these loans. The Federal Reserve Board cannot help but feel that this difficulty will not prove as great as is feared. This is not the first time that the plea has been made that business usage does not permit of compliance with requirements which those administering the Federal Reserve System consider mandatory as a matter of law or essential as a matter of banking prudence, and in many instances, notably with respect to the requirement of borrower's statements, what has at first seemed impossible has proved by experience to be both practicable and beneficial.

Another suggestion has been made by one of the Federal Reserve Banks which may be of assistance to cotton factors. When the factor sells cotton on credit terms which are customary and which are not unnecessarily or unreasonably long, if the purchaser gives a note, or accepts a draft drawn on him by the factor, for the amount of the purchaser's obligation, that note or accepted draft will have been "issued or drawn" for a commercial purpose within the meaning of Section 13 of the Federal Reserve Act and will be eligible for rediscount by Federal Reserve Banks if it complies in other respects with the law and the Board's regulations.

Very truly yours,

Governor.

To Governors and Federal Reserve Agents.

FEDERAL RESERVE BOARD

WASHINGTON

October 28, 1920.

X-2041

Subject: Absorption by Federal Reserve Banks of Fiscal Agency Expenses.

Dear Sir:

There is enclosed herewith, for your information, copy of a letter addressed to the Board by the Assistant Secretary of the Treasury in Charge of Fiscal Affairs, relative to the absorption by Federal Reserve Banks of overhead charges in connection with their fiscal agency functions.

The Board has replied that while it is anxious to cooperate with the Treasury in every way in connection with the discharge of fiscal agency functions by the Federal Reserve Banks, there might come a time when the absorption of overhead charges might jeopardize dividend payments by the Federal Reserve Banks. The suggestion made by the Assistant Secretary of the Treasury was, therefore, agreed to for the period ending June 30, 1922, and the Treasury has been so advised, with the further statement that a renewal of the arrangement will be considered from year to year, prior to the submission to Congress by the Treasury of its annual estimates.

Very truly yours,

Enclosure.

Governor.

To Governors and Chairmen of all F.R. Banks.

COPY X-2041 a

TREASURY DEPARTMENT
WASHINGTON
October 25,1920

My dear Governor:

Since our exchange of communications last month regarding the fiscal agency expenses of the Federal Reserve Banks, the subject has received the Secretary's personal consideration, and he has now indicated to me his full concurrence in the views expressed in my memorandum of October 14, 1920, a copy of which was sent to you with my memorandum of October 20th. The Treasury will therefore continue to adhere strictly to the principle of reimbursement for fiscal agency expenses and will seek the necessary appropriations from Congress to cover the period after June 30, 1921, when the existing appropriation for expenses of loans lapses. The Treasury does feel, however, that the Federal Reserve Banks might properly absorb general overhead expenses, without attempting to allocate any given proportion of them to reimbursable fiscal agency expenses, and that on this basis it would be helpful from every point of view to have the Federal Reserve Banks absorb the salaries of executive officers, even executive officers assigned chiefly to fiscal agency work, charges in connection with the occupancy and operation of their own buildings and other general bank expenses. In this connection, it is to be noted that the Federal Reserve Banks and branches in sub-treasury cities will, during the current fiscal year, be assigned substantial amounts of sub-treasury space, and that this space, under the law, will be assigned to them as fiscal agents of the United States and without reimbursement to the United States.

I should greatly appreciate advice as to whether the Board agrees with the Treasury's views in the matter, and if so, whether the Federal Reserve Banks will be so advised, in order that a uniform policy may be pursued. In response to requests from the Treasury for estimated reimbursable fiscal agency expenses for the current fiscal year and for the fiscal year 1922, the Federal Reserve Banks have already submitted estimates. For your information, I am attaching a compilation of the estimates as submitted. If the Board is in sympathy with the Treasury's position as to these expenses, as outlined in this letter, it is quite possible that the estimates submitted by some of the banks will require revision, with a view to the elimination of certain of the general overhead expenses.

Very truly yours,

(Signed) S.P. Gilbert, Jr.,
Assistant Secretary of the Treasury.

Honorable W.P.G. Harding,
Governor, Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

October 27,1920.
X-2042

Subject: Election of Class A
and Class B Directors.

Dear Sir:

The Federal Reserve Board advised the Chairmen of all Federal Reserve Banks by its circular letter dated September 7, 1920, (X-2007) that the classification of member banks into electoral groups for the coming election of Class A and Class B directors to succeed the directors whose terms will expire on December 31, 1920, should be upon the same basis as prescribed by the Federal Reserve Board in its letter of October 3, 1918 (X-1240), and that the Board had designated Tuesday, November 16, 1920, as the date for the opening of the polls for the election of such directors.

Under the terms of Section 4 of the Federal Reserve Act as amended September 26, 1918, each member bank is permitted to nominate to the Chairman of the Board of Directors of the Federal Reserve Bank of the district one candidate for director of Class A and one candidate for director of Class B, and the candidate so nominated shall be listed by the Chairman indicating by whom nominated, and a copy of said list shall, within fifteen days after its completion, be furnished by the Chairman to each member bank. Section 4 then provides that -

> "Each member bank by a resolution of the board or by an amendment to its by-laws shall authorize its president, cashier, or some other officer to cast the vote of the member bank in the elections of Class A and Class B directors.
>
> "Within fifteen days after receipt of the list of candidates the duly authorized officer of a member bank shall certify to the chairman his first, second, and other choices for director of Class A and Class B, respectively, upon a preferential ballot upon a form furnished by the chairman of the board of directors of the Federal Reserve Bank of the district. Each such officer shall make a cross opposite the name of the first, second, and other choices for a director of Class A and for a director of Class B, but shall not vote more than one choice for any one candidate. * * * * * * * * * * * * * * * * * *

"Any candidate having a majority of all votes cast in the column of first choice shall be declared elected. If no candidate have a majority of all the votes in the first column, then there shall be added together the votes cast by the electors for such candidates in the second column and the votes cast for the several candidates in the first column. If any candidate then have a majority of the electors voting, by adding together the first and second choices, he shall be declared elected. If no candidate have a majority of electors voting when the first and second choices shall have been added, then the votes cast in the third column for other choices shall be added together in like manner, and the candidate then having the highest number of votes shall be declared elected. An immediate report of election shall be declared."

While it is optional with member banks whether or not they shall nominate candidates for Class A or Class B directors, under the terms of the provisions just quoted it is mandatory upon each member bank to authorize, by a resolution of the board of directors or by an amendment to its by-laws, some officer to cast a vote in behalf of the bank in the elections of such directors, and upon the officer so authorized to certify to the Chairman of the Federal Reserve Bank his first, second and third choices for such directors. Inasmuch as each Class A or Class B director is elected by one group of member banks, nominations may be made and ballots shall be cast only by those member banks which belong to the group which is to participate in the particular election.

The law also makes it mandatory upon the officer casting the ballot to designate his first, second, and other choices and provides that under some circumstances votes for second and third choices may determine the election. The Federal Reserve Board has heretofore ruled that when there are three or more nominees no ballot is valid unless the first, second and third choices are designated thereon.

In order that each member bank belonging to a group which is to elect a Class A or a Class B director will participate in the coming election of such directors, you are requested to point out to member banks that the terms of the Federal Reserve Act are mandatory with respect to the authorization of officers to cast the votes of member banks and with respect to the casting by the officers so authorized of ballots designating the requisite number of choices.

Yours very truly,

Governor.

To Chairmen of all F.R. Banks.

F E D E R A L   R E S E R V E   B O A R D

STATEMENT FOR THE PRESS

October 30,1920.

For release in morning papers,
November 1, 1920.

X-2043

The following is a review of general business and financial conditions throughout the several Federal Reserve Districts during the month of October, as contained in the forthcoming issue of the Federal Reserve Bulletin.

October has been a month of continued transition in business. Economic and business readjustment, which has been much in evidence in recent months, is still in process. The factors involved in the present readjustment process are essentially the same as those which have been observed and noted in the past in periods of acute transition, and include, conspicuously, price changes, uncertainty regarding future market conditions, and slackening or suspension of activity in important lines of industry. In a national survey of conditions, however, it may fairly be said that the economic and business situation in the United States is showing much inherent strength and an ability to attain a position of relative stability through an orderly transition. Considering the industrial dislocations, the commercial disorganization, and the financial derangements occasioned by the Great War everywhere throughout the world in one degree or another, recovery and restoration are proceeding apace in the United States, and the natural forces in evidence which make for stabilization carry assurance for the future.

Price revisions in textile lines and in other branches of wearing apparel, as well as in numerous staple commodities, have been the outstanding elements in the situation, just as during the preceding month. Caution in buying, due to a belief that price readjustment is not yet complete, has been a noteworthy factor, and in some quarters has tended to slow down the activity of retail trade, although more apparent in wholesale trade. Crop yields have on the whole justified the expectations expressed at the opening of the month. Banking reserves have held their own during the month and there has been a steady improvement in the liquidity of paper. Labor is less fully employed. Notwithstanding some sporadic cuts in wages here and there the general position is about as good as it has been so far as actual payments or rates of wages are concerned.

In District No. 1 (Boston) there is some curtailment of production due to the uncertainty of prices, mills in various cases maintaining their lessened schedule of hours. Nevertheless there is a general undercurrent of conviction that present conditions are temporary.

District No. 2 (New York) reports improvement in investment outlook, enlargement of savings deposits, advance in liberty bond prices, a broader bill market, better new financing, slow expansion in demand for stocks, decline in many exports, lower prices, and a tendency to recession in employment.

District No. 3 (Philadelphia) states that there is a diminution in demand for goods and that little new business is being booked. Fluctuation of prices has interfered with the restoration of stable business conditions.

District No. 5 (Richmond) states that the price recession movement has broadened and that, due to this situation and its extension to farm products, there has been some hesitation in business.

In District No. 6 (Atlanta) there is active retail trade, but the crop outlook has become less favorable for certain products, while variation in lumber prices has been reduced to a minimum and coal and iron are somewhat harassed by strike conditions.

In District No. 7 (Chicago) the business situation is still confused by counter currents of opinion, with buying somewhat restricted and price readjustments presenting some problems to be overcome by producers and traders.

District No. 8 (St.Louis) finds fundamental conditions satisfactory, but in all lines there is hesitancy in purchasing goods for future requirements. Uncertainty as to future prices is the chief obstacle in the way of recovery.

In District No. 9 (Minneapolis) crops are large, grain is moving steadily to market and railroad efficiency has improved, but there have been declines in copper and iron production, in building permits, and in lumber output. Crop-moving needs have required large note issues.

In District No. 10 (Kansas City) price recessions and readjustments have been steady but without serious disarrangements, while retail trade and consumption are proceeding quietly and the labor outlook is favorable. The coal supply is somewhat larger.

In District No. 11 (Dallas) abundant confidence in underlying conditions and in the future of trade are expressed, while the seasonal peak of credit has been passed. There has been some shrinkage in wholesale trade, but retail trade is larger, transportation is better and the labor outlook improved.

In District No. 12 (San Francisco) business conditions indicate a period of transition. Retail trade is stable, despite a waiting attitude among the public. Good crops have been grown, but in the wool and cotton regions, there is dissatisfaction with prices, while lumber is in less demand than heretofore. Grain markets have been sluggish and declining.

The agricultural situation may be characterized as one of large yields and falling prices for the principal crops, accompanied by a spirit of dissatisfaction among a large part of the farming community, with a disposition in many cases to hold crops rather than to sell them at prevailing levels. The Government estimate of corn production has been further increased as of October 1 to 3,216,000,000 bushels, which is the largest crop on record. Some increase in the yield of oats is indicated, the estimate now being 1,444,000,000 bushels, but a decrease in the case of spring wheat from the September 1 estimate brought the figure to 751,000,000 bushels, which is below the 1919 estimate. Threshing is in progress, and seeding is well under way.

District No. 9 (Minneapolis) "has produced the largest corn crop in its history", estimated at over 260 million bushel, and the forecast of the oats crop, 28 million bushel, is also large., the combined crops thus being "a more important factor in the agricultural prosperity of the West than the total wheat crop", which is estimated at only 148 million bushels. Conditions in general are reported as favorable for fall plowing and seeding. In District No. 10 (Kansas City) most of the corn was mature enough to escape any great damage from the early frosts during the last week of September. Seeding of winter wheat has progressed rapidly under favorable weather and soil conditions. Threshing of this year's winter wheat from the stack is progressing slowly, while harvesting of spring wheat was generally completed in Colorado and Wyoming and threshing is in progress. In District No. 7 (Chicago) "production has been stimulated by the seasonable weather that has prevailed everywhere, except in southern Michigan." In District No. 4 (Cleveland) "the agricultural year has been very favorable", wheat being the only principal crop below the average, but "there is rather a strong undertone of dissatisfaction among farmers at the present time over the price situation." "Preliminary forecasts of good crops" in District No. 12 (San Francisco) "have been justified by the harvest, which is now practically complete." Farmers have been holding grain for better prices, while buyers have been slow to accumulate stocks.

A decrease of 75,000,000 pounds from the September 1 figure brings the October 1 estimate of tobacco production to 1,479,000,000 pounds. Prospects for the crop in District No. 8 (St.Louis) are reported "fair" and "there is less apprehension relative to yield than to marketing conditions." The tobacco crop in District No. 5 (Richmond) is estimated at 22 to 36 percent larger than last year's yield. Low prices at the opening of the markets caused many farmers to show a strong tendency to hold their crops, but prices advanced steadily during September and early October. It is stated that the best tobacco is being purchased freely, but low grades are not in demand.

The Government forecast on October 1 of the yield of cotton for the country as a whole was 12,123,000 bales, as compared with a September 1 forecast of 12,783,000 bales. The deterioration is stated to have been largely the result of the activity of weevils and worms, following "an unusually wet growing season", although in certain sections, such as Florida, it is ascribed more largely to the adverse weather conditions. In many sections there is practically no top crop. Nevertheless, it is reported from District No. 11 (Dallas) that the "most of the new crop . . . . is much superior in quality to last year's crop." Fifty-seven of seventy-six Texas counties from which data were obtained, representing 40 per cent of the estimated total production for the State, report marked improvement in the quality of the 1920 crop. Very little of the early ginnings were withheld from the market, but during October the decline in the price of the staple gave "a distinct check to the marketing movement." A goodly portion of the South Texas crop was sold before the heavy decline in the market. Picking has been practically completed in the southern tier of counties in the district and in the central zone half has been gathered, but in the northern tier the crop is about 30 days late, and picking has only "just fairly started". Little shortage of pickers is reported. Picking is proceeding well in most sections of Districts Nos. 6 and 8 (Atlanta and St.Louis). In Mississippi "ginning is slow and farmers generally are holding for better prices." In District No. 8 the crop "has moved slowly to date and at a sharp reduction in prices." September cotton on 18 markets in North and South Carolina brought about 7 cents less than four weeks previously, but cotton seed brought an average of $40 a ton as against $30 a month ago.

In connection with agricultural products, however, interest at this season of the year now centers more largely in the movement of crops to market and the prices realized. Grain in District No. 9 (Minneapolis) is "moving to market more rapidly". It is estimated that 38½% of the new wheat crop in South Dakota, 22% in Montana, 21% in Minnesota, and 20% in North Dakota had moved from the farms by October 1, and shipments from country elevators increased because of better railroad conditions. "The movement of grain from the Northwest", says the Minneapolis report, "may best be measured by combined grain receipts at Minneapolis and Duluth. During September these were 37,336,975 bushels, or double those of August and of September 1919. These figures indicate that there has been a very satisfactory movement of grain from the Northwest in the month of September, and considering the fact that a very large part of the Minneapolis receipts in August and September, 1919, were made up of southwestern winter wheat, the comparative showing for the northwestern States in the total movement for the season since August 1 is exceptionally favorable. The wheat receipts at Duluth from August 1 to September 30 included 7,564,084 bushels of durum, 2,150,606 bushels of spring wheat, and only 125,720 bushels of winter wheat.

It is estimated that between 70 and 90 per cent of the durum wheat produced in this country is exported to Europe. In view of this fact, it is plain that the European demand has fixed the durum price; and through the European demand for durum wheat the price of spring wheat has also been influenced. The continuous demand of the European market for our products is one of the most important factors for us to consider now in connection with the agricultural and business situation in the Northwest. As Europe is still buying very largely with credit, the sale of wheat will inevitably be affected by the degree of success attending the purchase of European securities in this country."

"The large production of all crops, the increased volume of grain receipts, and the difficultues attending the financing of European credits in this country, have all had their effect in depressing the price of the grains. Price changes for the month in grains and flour were uniformly downward, as is shown in the following table:

		September Daily Closing Prices		Sept. 30
	August 31	High	Low	Sept. 30
Cash wheat No. 1 dark Nor.	2.47-2.57	2.68½-2.75½	2.35½-2.45½	2.35½-2.45½
Cash corn No. 3 yellow	1,40-1.42	1,36-1.40	1.02-1.03	1.02-1.03
Cash oats No. 2 white	61¼-63¼	61-1/8-62-5/8	52½ - 53½	52-5/8-53-5/8
Flour-Washburn Crosby's Gold Medal 98 lb. cotton sacks	13.00	13.50	12.15	12.15

The grain markets in District No. 10 (Kansas City) during September were "erratic and unsettled because of wide sweeps in prices, in which wheat, corn, and oats declined to the lowest levels since the war." Due principally to a disposition on the part of farmers, as a result of these declines, to hold wheat, September wheat receipts at markets in the District were 10% below August and 25% below September 1919. "Declines in corn prices were no less remarkable than the decline in wheat prices." In District No. 11 (Dallas) September showed a heavy increased wheat movement, and it was estimated that by October 1, 71% of the crop had been marketed. Slow movement of crops is reported in most of the States of District No. 7 (Chicago). Very little small grain has been moved in Iowa, while in Indiana restricted transportation facilities and declining markets are retarding the movement.

Flour production in District No. 9 (Minneapolis) during the four weeks ending September 25 was the same as during the four weeks ending August 28, although only two thirds of the output a year ago. In District No. 10 (Kansas City) production during the same period was likewise less than a year ago, although the decline was only 25.9%. The latter District ascribes the slowing down of milling operations "largely to the general decline of the wheat market late in September and at the beginning of October". Short patents made from hard winter wheat were quoted on October 5 at Kansas City at $10.90 to $11.10 per barrel, as against $12.60 to $12.75 on September 7.

Live-stock movements are well under the heavy figures of last year, which were swelled by the drought conditions then existing. Receipts of cattle at 15 western markets during September were 1,736,009 head, as compared with 1,459,565 head during August and 1,871,042 head during

September, 1919, the respective index numbers being 172, 145, and 186. Receipts of sheep at the markets during September were 1,893,312 head, corresponding to an index number of 139, as compared with 1,688,719 head during August, corresponding to an index number of 124, and 2,890,831 head during September, 1919, corresponding to an index number of 212. Receipts of hogs during September amounted to 1,597,622 head, as compared with 1,818,245 head during August and 1,704,944 head during September, 1919, the respective index numbers being 73, 83, and 78. "A seasonal increase in the movement of grass cattle and continued relative scarcity of corn feds" are reported from Kansas City. Grass fed cattle were anywhere from $1.50 to $3.00 lower at Kansas City than at the close of August. The movement of stockers and feeders to the country was the heaviest of the year, and materially greater than a year ago. The light receipt of hogs during September is attributed by stockmen in the District to the large corn crop. Declines in cattle prices, as well as in sheep and lambs, were reported during September. In District No. 11 (Dallas) there was a notable increase in the supply of hogs. The cattle market was "weak and listless". Hogs and sheep were in brisk demand, but at the close of the month the prices of the former declined as a result of the drop in the corn market. During September "there were heavy runs of grass cattle of mediocre quality", at St. Paul, stockers and feeders moved to the country in large numbers early in the month but later decreased, and prices as compared with August "exhibited mixed tendencies." Range and pasture conditions in District No. 10 (Kansas City) "are generally excellent for this season of the year", and all live stock is reported in favorable condition. There has, however, been some deterioration in range conditions in certain parts of District No. 11, (Dallas) due to continued dry weather, but on the whole stock men in the District "are well equipped to carry their cattle through the winter, having, as a rule, an adequate supply of stock water and an abundance of feed." Livestock men in District No. 12 (San Francisco) "have experienced an unsatisfactory year", and there has been a tendency to decrease the supply of stockers, but "some movement in the opposite direction is now evident, with cheaper feed in prospect."

In the lumber industry cancellation of orders continues and there have been further price reductions. On October 1, 135 mills reporting to the Southern Pine Association stated orders to be 44,480,224 feet, shipments 63,735,239 feet, and production 62,769,563 feet. Normal production of these same mills was given at 87,674,183 feet. In District No. 11 (Dallas) the 28 mills belonging to the Southern Pine Association located in that District report production about equal to that of August. Shipments increased as a result of an improvement in transportation. Unfilled orders of these mills amounted to only 58,448,655 feet, on October 1 as compared with 75,778,485 (August 27). It should be said, however, that four additional mills are represented in the larger total. Excepting the California redwood mills, there was a heavy falling off in amount of new business taken on by the mills in District No. 12 (San Francisco) during the week ending October 2. "The market is reported to remain generally dull, and several mills are preparing to cease operations." For the four weeks ending September 25, 32 mills belonging to the Western Pine Manufacturers Association report orders at the close of the period of only 33,075,000 feet, against a cut of 102,763,000 feet. Corresponding figures for the West Coast Lumbermen's Association, (123 mills) are: orders, 202,008,000 feet, and cut, 286,440,000 feet, while the California Redwood

Association (10 mills) shows orders amounting to 19,388,000 feet, and a cut of 26,029,000 feet. District No. 9 (Minneapolis) states that returns from a selected list of 8 lumber manufacturers show September shipments and sales about three fourth those of August and only slightly more than one-half those of September a year ago. Reduced building activity and lessening of demand in agricultural regions are the causes most frequently assigned for the falling off in demand.

Production of crude oil in Kansas and Oklahoma in September was estimated to be 12,023,250 barrels, an increase of 30.5% as compared with September, 1919. Production in the Rocky Mountain fields, amounting to about 1,600,000 barrels, showed a slight increase. The total production of the Mid Continent field for the first nine months in 1920 amounted to 104,980,717 barrels, an increase of 22,870,471 barrels, or 27.8%, over the output for the same period in 1919. Fewer wells were completed in September in the Kansas, Oklahoma, and Wyoming fields than in the same month last year, nevertheless there was an increase in new production of 83,917 barrels, as against 75,296 in September, 1919. Crude oil prices remained virtually stationary in the District. In District No. 11 (Dallas) there was a decrease in production as compared with August, the September total amounting to 11,489,510 barrels, which was 854,376 barrels less than the August total. The Central West Texas field made the best showing. The output of the Texas Coastal field was affected by the falling off in output of one of the largest wells, whose yield dropped from 20,000 to 7,000 barrels per day. Also, fewer completions of new wells were recorded, and the output was less in the District as compared with August. A total of 636 wells were completed, 435 of which proved to be producers having an output of 80,587 barrels. In August there were 441 new producers, with an output of 103,205 barrels. Rainy weather unfavorable to drilling operations is reported to be responsible for the decline. Crude oil prices remained steady in the District. In District No. 12, (San Francisco) a record production of petroleum is reported from California, the daily output amounting to 304,340 barrels. The highest previous figure was recorded in June, 1914, when the daily average was 302,400 barrels. The increase resulted from new production in the Elk Hills.

The following figures were furnished by the Standard Oil Company for California:

	Sept. 1920	August 1920	Sept. 1919
Production - daily average	304,340 bbls	290,590 bbls	279,169 bbls.
Shipments - " "	313,533 "	321,955 "	310,271 "
Stored Stocks-end of Mo.	23,158,657 "	23,434,464 "	24,406,753 "
New Wells Opened	55	56	51
With Initial Daily Prod.	21,775 bbls.	20,550 bbls	21,330 bbls.
Wells Abandoned	5	5	6

Production of anthracite coal is now being accelerated with the return of the miners to work, and with a speeding up of transport activities the movement of coal is becoming more satisfactory. The output during September, however, was 5,125,000 tons, as compared with 7,332,000 tons during August and 7,333,000 during September, 1919, the respective index numbers being 69, 99, and 99. The report from District No. 2, (New York) says that the Lehigh Valley Railroad, a heavy anthracite carrier, reports an increase of 37% in coal movement in the first 15 days of October over the first 15 days of September and 6.3% over the same period last year. The production of bituminous coal for September was 51,093,000 tons as compared with 48,389,000 tons during August, and 47,402,000 tons during September, 1919, the respective index numbers being 138, 131, and 128. The output of bituminous coal in September was the largest for any month since October 1919 and while prices remain high, slight decreases are reported. According to the report of District No. 3,(Philadelphia) highest grade coals are selling at about $11 to $12 and lower grades at $8.50 to $9 per ton f. o. b. at the mines. Bituminous coal receipts at lake ports in District No. 4, (Cleveland) were promising, amounting to 4,138,533 tons loaded into vessels as compared with 2,505,827 in September, 1919. But the movement for the season is still behind that for 1919 - being only 15,469,783 tons as compared with 18,514,130 tons in 1919. Commercial distribution within the District, however, is stated to be far from satisfactory, reasons alleged being priority orders for lake shipments and for public utilities and lack of cars. District No. 5, (Richmond) reports better output, freer car movements and fewer labor troubles. In District No. 6, (Atlanta).however, mining is interfered with by the continuance of the strike called September 8 in the Alabama District. District No. 7, (Chicago) production is increasing with improved car supply and the same is true in District No. 8, (St. Louis). There was an increase of 2262 cars of coal moved through St. Louis in September, 1920 over September, 1919. District No. 10, (Kansas City) also reports increase in efficiency of distribution. Notwithstanding the speeding up of lake shipments, coal receipts at Lake Michigan ports are not only below 1919 totals but the percentage of the total going to Lake Superior ports is less than last year, according to the report from District No. 9, (Minneapolis) which says that the average tonnage received per day at Duluth-Superior harbor during September, 1920 was 39,243 tons. To equal the tonnage received during 1919 would require an average of 60,639 tons per day, and to equal the average for the 5 year period would require daily receipts of 76,642 tons. Moreover, stocks were heavier at the beginning of 1919 than 1920. In District No. 10, (Kansas City) weekly reports show that mines in Missouri and Oklahoma operated in September at about 75% of full capacity, while the Kansas mines operated at 55.5%. Transportation difficulties and mine disability are the reasons given for the greater part of time lost and in addition labor shortage which was more pronounced in the Kansas field than elsewhere. The retail price of coal has advanced generally throughout the District, prices of bituminous coal reaching $10 to $11.50 for best grades of lump in Kansas City during the first week in October. From District No. 11, (Dallas) come reports of a fuel shortage of a serious nature in western Texas, the Interstate Commerce Commission having been petitioned to assign rolling stock to the Colorado mines in order to supply the needed coal for winter.

Increased shipments from the Joplin district in September somewhat reduced surplus stocks of zinc and lead ores in District No. 10, (Kansas City) but severe drops in the prices of both metals are recorded, leading to further curtailment of production. During the month zinc ore prices ranged from $50 as a maximum base to $40 as a minimum. Base prices for calamine ores were $30 to $35. Lead ores fell in price from $110 at the beginning of the month to $80 at the close, the drop being attributed to importations of lead ore from Australia and Mexico. In District No. 9 (Minneapolis) copper production fell below the August figures and was less than that for September, 1919. Reports from companies producing about 75% of the District output were as follows:

POUNDS OF REFINED COPPER

	Sept. 1920	Aug. 1920	Per cent Sept. of August	Sept. 1919	Per cent 1920 of 1919
Michigan	9,522,837	9,581,645	99.5	13,050,802	72.9
Montana	12,166,115	12,786,515	95.2	14,005,975	86.8
All copper	21,688,952	22,368,160	97.2	27,056,777	80.0

New business in the iron and steel industry has decreased, and "for the first time in many months, the market now shows some of the mills in earnest quest of orders". A decrease, first remarked in the demand from the automobile industry has been reflected in "a generally growing conservatism" on the part of purchasers. From District No. 4, (Cleveland) it is stated that "efforts are now being concentrated by the consumers on the reduction of inventories". Cancellations and holding back of specifications, as well as the decrease in new purchasing, have resulted in a material curtailment of production by some steel companies. At the same time, there has been a decided improvement in the movement of iron and steel products". Prices have reflected this general situation, and have also been influenced by the drop in the price of coke. A tendency exists towards easing of prices by certain independent producers in the heavier lines, such as plates, structural shapes, large bars, etc. Some purchasers, in particular automobile manufacturers, have obtained a revision of prices on existing contracts, but it is stated from District No. 3, (Philadelphia) that "in the main the producers are insisting upon the completion of the contracts". In District No. 4, (Cleveland) "the market still shows a condition of large demand and sustained prices in some other lines, notably those of a lighter character". As a result of improved transportation conditions in District No. 6, (Atlanta) "there have been heavy movements of pig iron, cast iron pipe, iron and steel products out of the District". The unfilled orders of the United States Steel Corporation at the close of September had declined to 10,374,804 tons, corresponding to an index number of 197, as compared with 10,805,038 tons at the close of August, corresponding to an index number of 205. Pig iron production during September was 3,129,323 tons as compared with 3,147,402 tons during August, the respective index numbers being 135 and 136, but daily average production in September was in excess of August. Steel ingot production during September was 2,999,551 tons, as compared with 3,000,432 tons during August, the index number for both months being 124.

Cotton mills continue to operate on part time schedules due to lack of orders, and while there are not many complete shutdowns, the percentage of operating capacity in the industry is low. District No. 1, (Boston) reports that Lowell cotton mills are operating at about 60% of capacity. Some mills in the District are said to be manufacturing for stock in the absence of orders. Census figures show that with the exception of Rhode Island, the consumption of cotton by New England mills was less in September than in August, dropping from 168,167 bales to 148,442 bales for the District.

The active spindleage fell from 17,447,279 in August to 17,056,046 in September, while the cotton held in the mills declined from 610,311 bales in August to 531,453 in September. District No. 5, (Richmond) reports no change in the textile situation in September. The mills were then working on back orders and finding it very difficult to get new ones even at the much lower quotations prevailing. Data secured from 33 firms belonging to the National Association of Finishers of Cotton Fabrics, which represent about 70% of the white goods industry, 60% of dyed goods and 30% printed goods, show an average percentage of capacity operated amounting to 41% for all Districts, the percentages for District No. 1, (Boston) being 36% and for No. 2 (New York) 33%. The average number of days of work ahead at the end of September for all Districts was 6.9 days (5.3 days in District No. 1,(Boston) and 8 days in District No. 2, (New York)).In District No. 1, (Boston) woolen manufacturers are said to be "in a state of waiting". Uncertainty prevails as to when mills which have partially closed will be able to resume on a full time basis. At present very few orders have been received and price reductions have failed to stimulate buying for the 1921 spring season. The effect of the absence of buying demand is found in the market for raw wool, representative dealers agreeing that prices for standard grades have declined since May 1 about 35% to 40%. District No. 3, (Philadelphia) reports that woolen yarn spinners are receiving practically no orders although September and October are usually the busiest months. Mills in the District are variously reported to be operating at from 10% to 80% of capacity, those more fully employed running on back orders. One factory, working at 30% of its capacity stated that from 30% to 40% of the work was being done for stock. Mills engaged in the manufacture of underwear in District No. 3 (Philadelphia) are also either shut down or running at a small fraction of capacity. The uncertainty in regard to yarn prices as well as lack of orders, helps to explain the existing situation. In hosiery lines the closing of plants is general. Instability in yarn prices has made for frequent changes in prices quoted by manufacturers, with a resultant hesitancy on the part of jobbers and retailers to place orders. Carpet and rug mills in District No. 3 (Philadelphia) are receiving practically no orders, according to reports, although some of them are manufacturing for stock.

In the shoe and leather industry as in textiles, reports bring news of curtailed operations and in some cases complete shutdowns have occurred. Data from 15 representative boot and shoe manufacturers in District No. 1 (Boston) indicate that operations are at from 40 to 60% of normal capacity with little spring business placed. In Auburn, Maine, the shoe factories have been running full time, employing ½ to 2/3 the usual force. In District No. 8 (St. Louis), there are increases both in shipments and in current business in boot and shoe lines, but marked falling off in future orders has reduced manufacturing activity. Plants ~~with~~ in the District are estimated to be operating at from 55 to 65% of capacity, the larger plants being more active than the smaller ones. Manufacturers are buying little leather, with consequent reductions in the prices of both upper and sole leathers. Tanneries have still further reduced the scale of operations or have closed down during the month. District No. 8 (St. Louis) reports that wet salted hides which sold in St. Louis at 41¢ per lb. October 15, 1919, were being quoted at 9¢ on the same date this year. District No. 3 (Philadelphia) says: "Tanners report an absence of demand for their product, which following the ever increasing lack of interest of the last few months is now at its lowest ebb. Both sales of finished stock for immediate use and orders for future delivery are decreasing and all concessions in price fail to stimulate the trade."

Reports from eight of the twelve Federal Reserve Districts giving changes in the monthly volume of net sales for several important wholesale lines, show somewhat divergent tendencies, but in wholesale drygoods and in boots and shoes the statistics fairly well reveal the lack of demand which has been responsible for the inactivity in allied manufacturing lines. In drygoods the tendency has been downward comparing sales with the previous month in the four reporting districts Nos. 5 (Richmond) 6 (Atlanta) 11 (Dallas) and 12 (San Francisco). As compared with a year ago sales show reductions in three reporting districts with the notable exception of District No. 12 (San Francisco) where an increase of 14.3% is estimated to have occurred on the basis of statistics compiled from the returns made by twelve firms. In District No. 7 (Chicago) sales showed a negligible increase. Reductions in sales of wholesale shoe houses ranging from 17.6% in District No. 12 (San Francisco), fifteen firms reporting, to 43.2% in District No. 5, (Richmond), six firms reporting, have taken place. District averages based on returns from one hundred and thirty-five wholesale grocery firms indicate increases in six out of eight reporting Districts as compared with September 1919 excepting District No. 6 (Atlanta), seven firms reporting, and District No. 11 (Dallas), with five reporting establishments. Generally speaking there have been considerable increases in wholesale hardware sales over September a year ago. In District No. 11 (Dallas), with three reporting firms, sales show a decline. Obviously price changes, especially in lines in which pronounced reductions have been experienced, make it impossible to estimate changes in the physical volume of business done by the reporting groups of wholesalers.

The retail trade situation shows a moderate increase of net sales over the same period last year but it does not show the usual Fall activity. The unseasonable weather conditions throughout the country have had an appreciable effect upon the buying of certain articles, such as men's clothing. Accompanying this relatively light demand is a tendency on the part of the retailer in many cases to reduce prices in order to stimulate buying. This, it is reported in certain Districts, has had some effect. On the whole, however, "the consumer is not buying very actively." In some of the agricultural sections the unsettled price situation relative to the principal crops, as well as the tendency often found to hold instead of marketing, has helped retard full purchasing. Reports from almost all Districts state that the retailer is purchasing very conservatively, outstanding orders being very small, in spite of the fact that at this time of the year "many fall and winter goods are ordinarily received."

Information received from the several Federal Reserve Districts, brings evidence of further recessions in building activity for the country taken as a whole. In District No. 12 (SanFrancisco) however, the situation is exceptional, in that local reports show that both in number and in value of permits issued, September was ahead of August and for the nineteen principal cities, total valuation of permits was 50% greater than in September a year ago. But the Northwest is not sharing in these increases, both Portland and Seattle showing marked reductions in the value of permits as compared with a year ago, amounting to 41.7% and 35.4% respectively. On the other hand, Los Angeles registered a 195.5% increase and San Francisco, 62.1%. In the other Districts with the possible exception of District No. 6 (Atlanta) however, there is fairly universal testimony to a general decline in both number and in value of building permits as compared with September 1919. Although there is an increase in building activity in District No. 6 (Atlanta) as compared with a year ago, in a majority of the eighteen cities from which reports are received, it is noticeable that three large cities - New Orleans, Atlanta and Nashville - report decreases in value of permits. In District No. 1 (Boston) the value of permits for new construction amounted to only $2,580,313 in September 1920, against $5,673,930 in September 1919, for the same cities. Boston showed a decline from $1,273,157 to $592,115 in new construction, but there was an increase in other permits over the same month of the preceding year, the respective totals being $1,455,270 and $637,767. For the rest of the District the totals for other construction remained almost the same.

In District No. 2 (New York) little change in the building situation is reported. Building projects in contemplation decreased in number and value, although the value of contracts awarded rose largely because of expenditures for public works and public utilities. The estimated cost of permits issued in District No. 3 (Philadelphia) in September 1919 was $8,633,827, while the total was $4,936,379 in September 1920. The Number of permits likewise declined from 2,268 to 1,943. There is also less building in progress in District No. 4 (Cleveland) although labor is more plentiful and the transportation situation is improved. In twelve leading cities of the District with the exception of Columbus, declines are recorded both in number and in value of permits issued. In Cincinnati and Toledo slight increases in value of permits for alterations are more than offset by reductions in value of projected new construction. In District No. 5 (Richmond), the decrease in the value of building permits in twenty-three cities amounted to 13.5% as compared with September of the preceding year, the total figures being $1,000,599 less than the total for September 1919. There was likewise a decrease in number of permits issued both for new buildings and for alterations and repairs. The decline in valuation of permits from the preceding month - 23.4% - was in part due to seasonal factors. District No. 7 (Chicago) also reports little building in progress, and in the five leading cities of District No. 8 (St. Louis) a shrinkage occurred in number and value of permits as compared with September a year ago. The heaviest decreases took place in St. Louis, where new construction permits in September 1920 amounted to only $519,010, as compared with $2,662,430 in September 1919. In District No. 9 (Minneapolis) all important cities show a decline in the valuation of permits, except Fargo and Grand Forks. As compared with a year ago, the decline in valuation amounted to 44.3% and there was a reduction of 31.3% from the preceding month. District No. 10 (Kansas City) reports severe declines in the value of building permits as compared with September 1919, the reduction being 53.4%. On the other hand, building operations for the first nine months of 1920 were ahead of those for the corresponding months of last year. In District No. 11 (Dallas), although Shreveport, Beaumont and El Paso show an increase in the value of building permits as compared with September a year ago, six other cities from which reports are received record declines, especially marked in the case of Fort Worth and Houston. The opinion most generally advanced as to the causes of hesitancy in undertaking new construction in the face of the prevailing need is: first, uncertainty regarding the prices of building materials; secondly, existing high labor costs and finally, difficulty in securing capital for financing new projects and the prevailing high interest rates. Financially the month has shown comparatively few outstanding developments. There has been an upward tendency in the prices of bonds including both the Liberty issues and corporate securities. Discount rates have continued practically unaffected in most parts of the country. Movements of gold into the United States have been accelerated through the action of the Federal Reserve System in bringing home deposits which have been held "ear marked" abroad. Some inward shipments of gold have occurred as a result of the operations connected with the Anglo French maturities. One or two small foreign government offerings have been successfully made in the New York market but the cost has continued around 8%. There has been a somewhat broader demand for prime acceptances by outside banks and a rather better distribution of commercial paper. Corporate financing has somewhat revived but the stock market has been during most of the month in a rather depressed condition. Call money rates have been steady, most of the time, around 7%, but during the latter part of the month have at times risen to 9 and 10%. Foreign exchange has been not far from stable but rather depressed with a declining tendency which is attributed to the large outstanding balance of unfunded indebtedness which gives rise to offerings on the New York market from time to time whenever quotations show improvement.

FEDERAL RESERVE BOARD

WASHINGTON

November 1, 1920.

X-2044

Subject: Acceptances drawn by dealers engaged in the export and domestic sale of the same class of goods.

Dear Sir:-

The Federal Reserve Board has received an inquiry as to whether bankers' acceptances, drawn by dealers engaged in both export and domestic trade under a certain form of contract with the accepting banks, are eligible for rediscount and purchase by Federal Reserve Banks under the Board's new regulations of the Series of 1920. The form of contract was prepared some time ago to comply with the requirements of an opinion of the Board's Counsel dated April 1, 1918. In that opinion published on page 314 of the April 1918 Bulletin and on page 438 of the May 1918 Bulletin, it was suggested that drafts, drawn by a dealer purchasing the same class of goods both for export and domestic sale and accepted by a bank to finance the purchase and sale of the goods to be exported, might be considered eligible bankers' acceptances if the dealer's contract with the accepting bank provided -

> "(a) that he has entered into a contract for the export of the goods of a fixed amount; (b) that the total amount of drafts drawn by him under the credit opened to finance the export of such goods shall at no time exceed the aggregate amount of the import or export transactions contracted for and in process of execution; (c) that the proceeds of drafts drawn against the accepting bank under this credit are to be used in connection with the export contracts referred to, and that the proceeds of the sale of the goods exported will be applied in payment of the acceptances unless the dealer has in the meantime placed the bank in funds to meet them at maturity or has secured such acceptances by shipping documents, warehouse receipts, or other similar document conveying or securing title to readily marketable staples."

This suggestion was further commented upon in an opinion published on page 439 of the May 1918 Bulletin. As a result of these opinions the form of contract in question was submitted to and approved by the Federal Reserve Board containing the provisions suggested in the above quotation.

This form is now used, the Board understands, by a number of concerns, engaged in both foreign and domestic trade, when arranging for acceptance credits with their banks.

In the cases under consideration the drafts are drawn to finance the purchase or production of goods to be exported, and the actual export shipment of the goods has not actually occurred at the time of acceptance. Under the Board's Regulations A and B, Series of 1920, bankers' acceptances so drawn in export or import transactions are eligible for rediscount or purchase by Federal Reserve Banks only when they comply with the requirements of Regulation A, Section B, Subdivision (b) (1)

> "that there be in existence a specific and bona fide contract providing for the exportation or importation of such goods at or within a specified and reasonable time and that the customer agree that the accepting bank will be furnished in due course with shipping documents covering such goods or with exchange arising out of the transaction being financed by the credit."

It is apparent that a contract of the kind suggested in the opinion of April 1st does not comply with these requirements.

Under the terms of the Federal Reserve Act the Federal Reserve Board is vested with broad discretion in the matter of regulating the rediscounts and open market purchases of Federal Reserve Banks. The Board's ruling, incorporated in the published opinion of April 1, 1918, was made during the war and at a time when it was necessary to facilitate in every way the exportation of goods essential to the prosecution of the war. The opinion permitted the use of bankers' acceptances under circumstances which would not justify their use at the present time. The Board's regulations of the Series of 1920 which have just been issued, supersede all previous rulings which are inconsistent with them and make acceptances drawn under the form of contract suggested in the opinion of April 1, 1918, ineligible for rediscount or purchase.

If dealers purchasing or producing the same class of goods both for export and domestic sale wish to finance their export transactions by means of eligible bankers' acceptances it will be necessary that their contracts with the accepting banks shall contain different provisions than those suggested in the opinion of April 1, 1918. The Board now suggests that the contracts between such dealers and their accepting banks contain the following provisions, (a) that the dealer has entered into contracts providing for the exportation of goods of a specified amount within a specified and reasonable time; (b) that the total amount of drafts drawn by the dealer under credits opened to finance the exportation of such goods shall at no time exceed the aggregate amount of the export transactions contracted for and in process of execution; (c) that the proceeds of drafts drawn against the accepting bank under this credit will be used to consumate the export contracts referred to, that the dealer will furnish in due course to the accepting bank shipping documents covering such goods, and that the proceeds of the sale of the goods exported will be applied in liquidation of the acceptance credit.

The furnishing of "exchange arising out of the transaction being financed by the credit" is intended as an alternative to the furnishing of shipping documents only in import transactions so that this phrase, which appears in Regulation A, may be disregarded in considering export transactions.

Under the Regulations of 1920 acceptances drawn to finance the purchase or production of goods under contract for export are eligible for rediscount or purchase only when the customer definitely agrees that the accepting bank will be furnished in due course with shipping documents covering such goods. Such acceptances will no longer be eligible, therefore, if the customer is given the option to furnish warehouse receipts or similar documents, and thus to change the nature of the acceptances by converting them from acceptances based upon export transactions into acceptances based upon domestic transactions.

Yours very truly,

Governor.

To Governors and Federal Reserve Agents.

TREASURY DEPARTMENT
WASHINGTON

X-2045

November 1, 1920.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period July 1 to July 31, 1920, amounting to $166,537.20, as follows:

FEDERAL RESERVE NOTES, 1914.

	$5	$10	$20	$50	$100	Total
Boston	137,000	93,000	136,000	-	-	366,000
New York	184,000	102,000	150,000	7,000	1,000	444,000
Philadelphia	97,000	48,000	130,000	2,000	-	277,000
Cleveland	206,000	48,000	23,000	11,000	3,000	291,000
Richmond	250,000	83,000	56,000	2,000	-	391,000
Atlanta	273,000	97,000	11,000	-	-	381,000
Chicago	171,000	83,000	291,000	33,000	5,000	583,000
St. Louis	95,000	-	-	-	-	95,000
Minneapolis	-	67,000	-	1,000	-	68,000
Kansas City	69,000	2,000	32,000	-	-	103,000
Dallas	110,000	-	-	2,000	-	112,000
San Francisco	103,000	17,000	53,000	4,000	-	177,000
	1,695,000	640,000	882,000	62,000	9,000	3,288,000

3,288,000 sheets at $50.65 . . . . $166,537.20

The charges against the several Federal Reserve Banks are as follows:

	Sheets	Compensation.	Plate Printing	Materials	Inc. Compensation	Total
Boston	366,000	$6,148.80	$5,746.20	$4,981.26	$1,661.64	$18,537.90
New York	444,000	7,459.20	6,970.80	6,042.84	2,015.76	22,488.60
Philadelphia	277,000	4,653.60	4,348.90	3,769.97	1,257.58	14,030.05
Cleveland	291,000	4,888.80	4,568.70	3,960.51	1,321.14	14,739.15
Richmond	391,000	6,568.80	6,138.70	5,321.51	1,775.14	19,804.15
Atlanta	381,000	6,400.80	5,981.70	5,185.41	1,729.74	19,297.65
Chicago	583,000	9,794.40	9,153.10	7,934.63	2,646.82	29,528.95
St. Louis	95,000	1,596.00	1,491.50	1,292.95	431.30	4,811.75
Minneapolis	68,000	1,142.40	1,067.60	925.48	308.72	3,444.20
Kansas City	103,000	1,730.40	1,617.10	1,401.83	467.62	5,216.95
Dallas	112,000	1,881.60	1,758.40	1,524.32	508.48	5,672.80
San Francisco	177,000	2,973.60	2,778.90	2,408.97	803.58	8,965.05
	3,288,000	$55,238.40	51,621.60	44,749.68	14,927.52	166,537.20

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
S. P. Gilbert, Jr.
Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON

X-2045a

November 1, 1920.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period July 1 to July 31, 1920, amounting to $116.50, as follows:

Federal Reserve Notes, 1918

	$500	$1000	Total
Boston	–	500	500
New York	–	1,500	1,500
Richmond	–	100	100
Chicago	200	–	200
	200	2,100	2,300

2,300 sheets at $50.65 .... $116.50

The charged against the several Federal Reserve Banks are as follows:

	Sheets	Compensation	Plate Printing	Materials	Inc. Compensation	Total
Boston	500	$ 8.40	$ 7.85	$ 6.81	$2.27	$25.33
New York	1,500	25.20	23.55	20.41	6.81	75.97
Richmond	100	1.68	1.57	1.36	.46	5.07
Chicago	200	3.36	3.14	2.72	.91	10.13
	2,300	$38.64	$36.11	$31.30	$10.45	$116.50

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

S. P. Gilbert, Jr.

Assistant Secretary of the Treasury.

TREASURY DEPARTMENT X*2046
WASHINGTON

November 1, 1920.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period August 1 to August 31, 1920, amounting to $158,483.85, as follows:

Federal Reserve Notes, 1914

	$5	$10	$20	$50	$100	Total
Boston	241,000	206,000	63,000	11,000	1,000	522,000
New York	344,000	273,000	125,000	5,000	-	747,000
Philadelphia	286,000	42,000	2,000	3,000	2,000	335,000
Cleveland.	177,000	102,000	-	22,000	3,000	304,000
Richmond	31,000	-	3,000	4,000	2,000	40,000
Atlanta.	36,000	11,000	-	-	-	47,000
Chicago.	151,000	282,000	194,000	24,000	12,000	663,000
St. Louis.	93,000	-	-	-	-	93,000
Minneapolis. . . .	-	1,000	-	-	-	1,000
Kansas City. . . .	17,000	-	18,000	1,000	2,000	38,000
Dallas	22,000	-	-	-	1,000	23,000
San Francisco. . .	130,000	116,000	65,000	5,000	-	316,000
	1,528,000	1,033,000	470,000	75,000	23,000	3,129,000

3,129,000 sheets at $50.65 . . . . $158,483.85

The charges against the several Federal Reserve Banks are as follows:

	Sheets	Compensation.	Plate Printing	Materials	Inc. Compensation	Total
Boston	522,000	$8,769.60	$8,195.40	$7,104.42	$2,369.88	$26,439.30
New York . . .	747,000	12,549.60	11,727.90	10,166.67	3,391.38	37,835.55
Philadelphia .	335,000	5,628.00	5,259.50	4,559.35	1,520.90	16,967.75
Cleveland. . .	304,000	5,107.20	4,772.80	4,137.44	1,380.16	15,397.60
Richmond . . .	40,000	672.00	628.00	544.40	181.60	2,026.00
Atlanta. . . .	47,000	789.60	737.90	639.67	213.38	2,380.55
Chicago. . . .	663,000	11,138.40	10,409.10	9,023.43	3,010.02	33,580.95
St. Louis. . .	93,000	1,562.40	1,460.10	1,265.73	422.22	4,710.45
Minneapolis. .	1,000	16.80	15.70	13.61	4.54	50.65
Kansas City. .	38,000	638.40	596.60	517.18	172.52	1,924.70
Dallas	23,000	386.40	361.10	313.03	104.42	1,164.95
San Francisco.	316,000	5,308.80	4,961.20	4,300.76	1,434.64	16,005.40
	3,129,000	52,567.20	49,125.30	$42,585.69	$14,205.66	$158,483.85

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
S. P. Gilbert, Jr.
Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON

X-2046a

November 1, 1920.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period August 1 to August 31, 1920, amounting to $450,79, as follows:

Federal Reserve Notes, 1918

	$500	$1000	Total
Boston	-	800	800
New York	300	4,400	4,700
Cleveland	100	-	100
Chicago	1,200	2,100	3,300
	1,600	7,300	8,900

8,900 sheets at $50.65 . . . . $450.79

The charges against the several Federal Reserve Banks are as follows:

	Sheets	Compensation.	Plate Printing	Materials	Inc.Compensation	Total
Boston	800	$ 13.44	$12.56	$10.89	$3.63	$40.52
New York	4,700	78.96	73.79	63.97	21.34	238.06
Cleveland	100	1.68	1.57	1.36	.45	5.06
Chicago	3,300	55.44	51.81	44.91	14.99	167.15
	8,900	149.52	139.73	121.13	40.41	450.79

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
S. P. Gilbert,Jr.
Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON

X-2047

November 1, 1920.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period September 1 to September 30, 1920, amounting to $190,241.40, as follows:

Federal Reserve Notes, 1914.

	$5	$10	$20	$50	$100	Total
Boston	353,000	291,000	-	4,000	-	648,000
New York . . .	611,000	344,000	17,000	10,000	-	982,000
Philadelphia .	302,000	34,000	-	6,000	-	342,000
Cleveland. . .	272,000	29,000	7,000	21,000	4,000	333,000
Richmond . . .	-	-	-	1,000	-	1,000
Chicago . . .	516,000	300,000	135,000	16,000	-	967,000
St. Louis. . .	202,000	-	-	-	-	202,000
San Francisco.	219,000	49,000	13,000	-	-	281,000
	2,475,000	1,047,000	172,000	58,000	4,000	3,756,000

3,756,000 sheets at $50.65 . . . . $190,241.40

The charges against the several Federal Reserve Banks are as follows:

	Sheets	Compensation	Plate Printing	Materials	Inc.Compansation	Total
Boston . . .	648,000	$10,886.40	$10,173.60	$8,819.28	$2,941.92	$32,821.20
New York . .	982,000	16,497.60	15,417.40	13,365.02	4,458.28	49,738.30
Philadelphia	342,000	5,745.60	5,369.40	4,654.62	1,552.68	17,322.30
Cleveland. .	333,000	5,594.40	5,228.10	4,532.13	1,511.82	16,866.45
Richmond . .	1,000	16.80	15.70	13.61	4.54	50.65
Chicago . .	967,000	16, 245.60	15,181.90	13,160.87	4,390.18	48,978.55
St. Louis. .	202,000	3,393.60	3,171.40	2,749.22	917.08	10,231.30
San Francisco	281,000	4,720.80	4,411.70	3,824.41	1,275.74	14,232.65
	3,756,000	$63, 100.80	$58,969.20	51,119.16	$17,052.24	190,241.40

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
S. P. Gilbert, Jr.
Assistant Secretary of the Treasury.

1020

Oct. 3, 1918. I. CLASSIFICATION OF MEMBER BANKS IN EACH DISTRICT INTO ELECTORAL GROUPS ACCORDING TO CAPITAL AND SURPLUS.

District	Group 1 Banks having capital and surplus of over	Group 2 Banks having capital and surplus of from	Group 3 Banks having capital and surplus of under
Boston	$ 999,000	$ 300,000 to $ 999,000	$ 300,000
New York	1,999,000	201,000 to 1,999,000	201,000
Philadelphia	999,000	250,000 to 999,000	250,000
Cleveland	999,000	200,000 to 999,000	200,000
Richmond	599,000	150,000 to 599,000	150,000
Atlanta	599,000	100,000 to 599,000	100,000
Chicago	999,000	200,000 to 999,000	200,000
St.Louis	599,000	100,000 to 599,000	100,000
Minneapolis	399,000	60,000 to 399,000	60,000
Kansas City	499,000	75,000 to 499,000	75,000
Dallas	399,000	100,000 to 399,000	100,000
San Francisco	599,000	125,000 to 599,000	125,000

1021

X-2048 a

II. TOTAL AMOUNT OF CAPITAL AND SURPLUS IN EACH ELECTORAL GROUP BY DISTRICTS.

District	Total Capital and Surplus	Group 1 Amount		Group 2 Amount		Group 3 Amount	
Boston	$ 216,000,000	$ 130,000,000	60%	$ 50,000,000	23%	$ 36,000,000	17%
New York	660,000,000	519,000,000	78%	98,000,000	15%	43,000,000	7%
Philadelphia	238,000,000	134,000,000	56%	63,000,000	27%	41,000,000	17%
Cleveland	291,000,000	178,000,000	60%	66,000,000	23%	47,000,000	17%
Richmond	130,000,000	63,000,000	48%	37,000,000	28%	30,000,000	24%
Atlanta	103,000,000	59,000,000	57%	35,000,000	34%	9,000,000	9%
Chicago	351,000,000	207,000,000	59%	81,000,000	23%	63,000,000	18%
St.Louis	123,000,000	78,000,000	63%	30,000,000	24%	15,000,000	13%
Minneapolis	93,000,000	41,000,000	44%	35,000,000	38%	17,000,000	18%
Kansas City	120,000,000	43,000,000	36%	52,000,000	43%	25,000,000	21%
Dallas	100,000,000	34,000,000	34%	45,000,000	45%	21,000,000	21%
SanFrancisco	149,000,000	91,000,000	61%	33,000,000	22%	25,000,000	17%

III. TOTAL NUMBER OF BANKS IN EACH ELECTORAL GROUP BY DISTRICTS.

District	Total Number of Banks	Group 1 Number		Group 2 Number		Group 3 Number	
Boston	415	38	9%	104	25%	273	66%
New York	696	53	8%	176	25%	467	67%
Philadelphia	629	42	7%	150	24%	437	69%
Cleveland	775	52	7%	183	23%	540	70%
Richmond	549	51	9%	136	25%	362	66%
Atlanta	404	43	11%	185	46%	176	43%
Chicago	1129	49	4%	249	22%	831	74%
St.Louis	497	34	7%	163	33%	300	60%
Minneapolis	821	29	4%	293	35%	499	61%
Kansas City	981	38	4%	352	35%	591	61%
Dallas	696	42	6%	260	38%	394	56%
SanFrancisco	507	44	9%	133	25%	330	66%

FEDERAL RESERVE BOARD

WASHINGTON

X-2050

November 6, 1920.

Dear Sir:

The bill of the stenographer covering reports of conferences of Federal Reserve Agents and Governors in Washington on October 13, 14, 15, and 16, amounting to $1,736.55, has been presented to the Federal Reserve Board. This has been apportioned between Federal Reserve Banks and the Federal Reserve Board according to the number of copies received as shown by the attached statement, the amount chargeable to Federal Reserve Banks being $1,488.96.

Kindly deposit one-twelfth of this amount, $124.08, in the usual manner to the credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", reports of conferences, and send duplicate C/D to the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

Sent to Chairmen of all Federal Reserve Banks.

X-2050a

DISTRIBUTION OF COPIES OF REPORTS OF CONFERENCES HELD

OCTOBER 13, 14, 15, & 16th.

	BANKS			BOARD			TOTAL	
	No. of copies	Price per copy	Total	No. of copies	Price per copy	Total	No. of copies	Total
JOINT CONFERENCE								
	24	$37.43	$898.32	3	$37.43	$112.29	27	$1,010.61
CONFERENCE OF GOVERNORS								
	12	$22.11	$265.32	3	$22.11	$66.33	15	$331.65
CONFERENCE OF AGENTS								
	12	$18.91	$226.92	3	$18.91	$56.73	15	$283.65
MR. JAY'S SPEECH								
	24	$4.10	$98.40	3	$4.10	$12.30	27	$110.70
	72		$1,488.96	12		$247.65	84	$1,736.61

FEDERAL RESERVE BOARD

WASHINGTON

November 6,1920.

X-2051

Subject: Data on Bank Quarters for Annual Report of Federal Reserve Board.

Dear Sir:

Please send me not later than December 10th a brief statement of the arrangements made by your bank for permanent quarters, as well as vault facilities. This statement should show the value at which the real estate is carried on your books, estimated cost of improvements and progress of building operations, and such other information as, in your opinion, would be proper to include in a report to Congress.

Very truly yours,

Governor.

To Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 8,1920.

X-2053

Subject: Extension of Provisions of Sub-section (m) of Section 11 of the Federal Reserve Act.

Dear Sir:

With reference to the provisions of sub-section (m) of Section 11 of the Federal Reserve Act, permitting Federal Reserve Banks to rediscount for a member bank the paper of any one individual, firm or corporation in an amount equal to twenty per cent of the member bank's capital and surplus, provided at least ten per cent of such loans are secured by bonds or notes of the United States issued since April 24, 1917 or by certificates of indebtedness of the United States, it will be noted from a reading of the sub-section that the provisions thereof will not be operative after December 31, 1920.

For your information I would state that the Federal Reserve Board will, at the short session of Congress to convene in December next, recommend the passage of legislation extending the provisions of this sub-section for one year, that is, until December 31, 1921. You will be advised in due course of action taken by Congress on the Board's proposed recommendation.

Very truly yours,

Destroyed, see page 1032

Governor.

To Chairmen and Governors of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 9, 1920.
X-2054

Subject: Broadening of Market for Bankers' Acceptances.

Dear Sir:

During the past five years the Federal Reserve Banks have been called upon to carry that portion of the increasing volume of bankers' acceptances which has not been absorbed by the discount market. The fact that, with the increase in the volume of bankers' acceptances, the Federal Reserve Banks have not been called upon to carry an even larger amount, is evidence of the better distribution of bills and of the broadening of the discount market. The strength of this market lies in its breadth, that is, in the number of institutions or individuals forming the habit of purchasing bankers' acceptances.

The Board feels that the development of the broadest possible market for bankers' acceptances is of vital interest to the effective functioning of the Federal Reserve Banks, and that this will be increasingly so as international movements of credit approach the freedom of flow which obtained before the war. With rates for bills at the high levels now prevailing, the Board feels that the present opportunity is most favorable for interesting the widest possible circle of buyers and it believes that the influence of the Federal Reserve Banks, in their respective Districts, might appropriately be used to bring about a more general distribution of bills.

The Board requests that you furnish it with any information you may have as to the extent to which bankers, investors and others in your District are now purchasing bankers' acceptances, and advise also to what extent your Bank has been able to assist in awakening an interest in bills among such purchasers. The Board would be pleased to have your views as to what can be done to assist further development of sales of bankers' acceptances within your District.

Very truly yours,

Governor.

To Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 9,1920.
X-2055

Subject: Resolution adopted by Board of Directors of Federal Reserve Bank of Cleveland.

Dear Sir:

There is enclosed herewith for your information copy of resolution adopted recently by the Board of Directors of the Federal Reserve Bank of Cleveland. You are requested to discuss the subject of the resolution with your officers and Executive Committee and to advise the Board whether or not it would be practicable to adopt the plan suggested.

Very truly yours,

Governor.

To Chairmen of all F.R. Banks EXCEPT BOSTON, PHILADELPHIA, AND CLEVELAND.

X-2055 a

COPY OF RESOLUTION, PASSED AT THE REGULAR MEETING OF THE BOARD OF DIRECTORS OF THE FEDERAL RESERVE BANK OF CLEVELAND, HELD NOVEMBER 5, 1920.

Whereas, under the direction and by the authority of the Federal Reserve Board this bank is loaning to other Federal Reserve Banks substantially one and one-half times the volume of its loans to its member banks, and

Whereas, such advances could not be made except upon the basis of the reserve deposits of its member banks, and the use thereof, and

Whereas, the directors of the Federal Reserve Bank of Cleveland feel a solemn duty and responsibility to take every precaution to protect the reserve funds entrusted to them by the member banks;

Now, therefore, be it resolved that it is the sense of the directors of the Federal Reserve Bank of Cleveland that future offerings of paper by other Federal Reserve Banks to this bank for rediscount should consist of government-secured notes and commercial paper in the proportion that these two classes of paper are held by the offering bank.

And, further, be it resolved that the action upon this resolution and the text thereof be respectfully submitted to the Federal Reserve Board for such action as that body may see fit to take.

X-2056

TREASURY DEPARTMENT
WASHINGTON, D.C.

November 5, 1920.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period October 1 to October 31, 1920, amounting to $30.39, as follows:

Federal Reserve Notes 1918

	$500	$1000	Total
Philadelphia....................	-	300	300
Cleveland........................	100	100	200
Chicago	100	-	100
	200	400	600

600 sheets at $50.65 .... $30.39

The charges against the several Federal Reserve Banks are as follows:

	Sheets	Compen-sation.	Plate Printing	Materials	Inc.Com-pensation	Total
Philadelphia...	300	$5.04	$4.71	$4.09	$1.36	$15.20
Cleveland......	200	3.36	3.14	2.72	.91	10.13
Chicago........	100	1.68	1.57	1.36	.45	5.06
	600	$10.08	$9.42	$8.17	$2.72	$30.39

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

S. P. Gilbert, Jr.
Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
WASHINGTON, D.C.

November 5, 1920.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period October 1 to October 31, 1920, amounting to $216,984.60, as follows:

Federal Reserve Notes 1914

	$5	$10	$20	$50	$100	Total
Boston......	419,000	344,000	-	1,000	-	764,000
New York....	594,000	456,000	-	8,000	-	1,058,000
Philadelphia	373,000	155,000	-	-	-	528,000
Cleveland...	224,000	15,000	133,000	7,000	2,000	381,000
Richmond....	-	2,000	-	1,000	1,000	4,000
Chicago.....	525,000	311,000	90,000	7,000	2,000	935,000
St. Louis...	290,000	39,000	-	-	-	329,000
San Francisco	222,000	62,000	-	1,000	-	285,000
	2,647,000	1,384,000	223,000	25,000	5,000	4,284,000

4,284,000 sheets at $50.65 .... $216,984.60

The charges against the several Federal Reserve Banks are as follows:

	Sheets	Compensation	Plate Printing	Materials	Inc. Compensation	Total
Boston.........	764,000	$12,835.20	11,994.80	10,398.04	$3,468.56	$38,696.60
New York......	1058,000	17,774.40	16,610.60	14,399.38	4,803.32	53,587.70
Philadelphia..	528,000	8,870.40	8,289.60	7,186.08	2,397.12	26,743.20
Cleveland.....	381,000	6,400.80	5,981.70	5,185.41	1,729.74	19,297.65
Richmond......	4,000	67.20	62.80	54.44	18.16	202.60
Chicago.......	935,000	15,708.00	14,679.50	12,725.35	4,244.90	47,357.75
St. Louis.....	329,000	5,527.20	5,165.30	4,477.69	1,493.66	16,663.85
San Francisco.	285,000	4,788.00	4,474.50	3,878.85	1,293.90	14,435.25
	4,284,000	$71,971.20	67,258.80	58,305.24	19,449.36	$216,984.60

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,

S. P. Gilbert, Jr.
Assistant Secretary of the Treasury.

FEDERAL RESERVE BOARD

WASHINGTON

November 10,1920.

X-2057

Dear Sir:

You are requested to destroy Board's letter (X-2053), dated November 8, 1920, on the subject of "Extension of Provisions of Sub-section (m) of Section 11 of the Federal Reserve Act", in which an error has been discovered. Corrected letter is enclosed herewith.

Very truly yours,

Enclosure.

Assistant Secretary.

To Chairmen and Governors of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 10,1920.
X-2057 a
(Superseding X-2053)

Subject: Extension of Provisions of Sub-section (m) of Section 11 of the Federal Reserve Act.

Dear Sir:

With reference to the provisions of sub-section (m) of Section 11 of the Federal Reserve Act, under which Federal Reserve Banks may be permitted to rediscount for any member bank the paper of any one borrower in an amount equal to twenty per cent of the member bank's capital and surplus, provided that the excess over and above ten per cent be secured by not less than a like face amount of bonds or notes of the United States issued since April 24, 1917, or by certificates of indebtedness of the United States, it will be noted from a reading of the sub-section that the provisions thereof will not be operative after December 31, 1920.

For your information I would state that the Federal Reserve Board will, at the short session of Congress to convene in December next, recommend the passage of legislation extending the provisions of this sub-section for one year, that is, until December 31, 1921. You will be advised in due course of action taken by Congress on the Board's proposed recommendation.

Very truly yours,

Governor.

To Chairmen and Governors of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 15,1920.
X-2058

Subject: Division of "Accounts Receivable" Items Shown on Credit Statements Submitted to Federal Reserve Banks.

Dear Sir:

Your attention is invited to the following extract from a letter from the senior partner of a well-known firm of public accountants.

> "With the changed conditions, a tendency to improve the appearance of financial statements of commercial concerns in dubious ways is becoming more noticeable and as the Federal Reserve Board has exercised such a beneficial influence in the past on the form of financial statements I venture to call your attention to one point upon which I think its influence would be helpful if it feels able to exert it.
>
> "For many years the phrase 'Accounts Receivable' has been an accepted balance sheet heading and literally it is, of course, wide enough to cover many things besides customers' accounts, including some which are on quite a different plane from the standpoint of liquidation. I think the time is now opportune for a movement to do away with this wide heading and to insist on customers' accounts receivable being shown as one item, any other accounts being shown separately and clearly and adequately described. The point is met in the standard forms of credit statements but those forms are not always followed even in statements presented as a basis for credit."

It is the Board's understanding that in most cases credit statements submitted to Federal Reserve Banks show "Accounts Receivable"in some detail, "Current Accounts Receivable from Customers" being separated from suspended items or from amounts due by members of the firm. In the event, however, that balance sheets submitted to your bank as a basis for credit do not show this subdivision, the Board would strongly urge that you call the attention of all concerned to the importance of making these distinctions.

Very truly yours,

Governor.

Chairmen of all F.R. Banks.

X-2060

REPORTS OF MEMBERS

of

FEDERAL ADVISORY COUNCIL

to the

JOINT CONFERENCE

of

FEDERAL RESERVE BANKS AND FEDERAL ADVISORY COUNCIL

held at

Washington, D.C.

November 15, 1920.

District No. 1 (Boston)

Wholesale closing down of industry and general cessation of orders for goods, accompanied by continued cancellations of goods already ordered, are the almost universal reports received from merchants and manufacturers in this District. Reductions in prices have so far done nothing to improve demand and have indeed resulted in rendering buyers still more timid.

The retailer seems to be the most hopeful element in the situation. There appears to be a fair demand from the individual consumer, and while it is probable that in number of sales the retailer is not having his normal business; nevertheless in dollars the liquidation of retailers' stocks is progressing satisfactorily without as yet severe price reduction.

Unfortunately the retailers generally are carrying abnormally large stocks which they hope to reduce to normal proportions in the next six weeks and about January 1st it is expected that sweeping price reductions will result in generally increased sales and the resumption of normal buying. Some retailers have expressed the fear that the demand for goods from the manufacturer will become so general that a scramble may ensue, possibly encouraging the manufacturer to raise prices. Whether the public will continue to buy enough to accomplish the fulfillment of these predictions will be proved in the next month.

Meanwhile the situation is most depressing. Raw material prices continue to weaken, wool, cotton, hides, leather, ground wood pulp, sugar and lumber continue to pile up in storage and cuts in prices do not stimulate sales.

There are, however, some encouraging features - Savings deposits have not decreased in spite of unemployment. There is undoubtedly plenty of buying power and when it is reasonably sure that lowest prices have been reached a revival in industry is confidently expected. Meanwhile labor has improved in efficiency from 25 to 50% and is generally ready to accept lower wages if industries can be reopened.

Railroad transportation is improving and there is a slow liquidation, which has encouraged the belief that in this district the money strain is nearing its end. It is generally believed that easier money conditions will revive confidence and help to restore normal trade conditions on a much safer base than has been possible in the last two years.

While not strictly within the scope of a district report, there is one matter affecting all districts that I should like to have discussed at this meeting. While the Federal Banks have in most ways cooperated so as to obtain the advantages of a great central bank with branches, in one way there has not been cooperation or any agreement as to policy. That is in the discrimination by the Federal Reserve Banks of some districts against the rediscount of good commercial paper that is eligible in other districts. In our district the bankers believe it is very bad policy not to have a more general understanding and agreement between the officers and directors of Federal Reserve Banks in the different districts as to eligibility of paper for rediscount.

PHILIP STOCKTON.

District No. 2 (New York)

The outstanding fact is, of course, the tremendous slump in commodity prices still under way. Bradstreet's index number shows a decline of 25% from February 1st to November 1st in commodities at wholesale. The index number of the New York Federal Reserve Bank shows a decline of over 27% from last April to November 6th, and their statistician states that there have been important breaks in a number of commodities since that date. This index number is based on the twelve most important basic commodities. Other index numbers have not fallen so fast, but it is probable that they contain many quotations which do not represent the actual market facts: there is a great difference between quoted prices and the actual prices which a large buyer can obtain if he is willing to pay actual cash. It is easy for such a buyer to get marked concessions from quoted prices.

The general credit fabric has met this almost unprecedented shock in a gratifying way. Federal Reserve Banks, member banks, and businesses are cooperating loyally and effectively. There is no reason at all to apprehend a banking or a money panic or to apprehend a situation in which solvent business men cannot borrow the funds which they need to protect their solvency. There is an increase in the amount of paper that has had to be renewed owing to inability on the part of many borrowers to reduce their inventories. Some good observers have the impression that inventories are actually increasing, but data to confirm this are inadequate.

The great banks in the Wall Street section in New York City have shown a substantial increase in loans in the last month. Bank loans on stock and bond collateral continue to go down, and commercial loans continue to increase. Loans on war paper are about stationary. Upstate banks have had to expand loans in connection with the milk situation. The producers of evaporated milk have been caught with large inventories and have largely stopped production. The farmers have been starting their own evaporated milk factories and have been borrowing from the banks heavily in the process: not much building is required in this, the process is simple, and the important thing is to carry the product until it can be sold. Bank expansion has occurred in connection with this.

Employment continues to decline in the New York District. There has been a decline from the peak, which came in March or April of this year, of about 9%, according to one official report. The same report indicates a decline of 2% in the last month. Other unofficial figures would suggest a decline of perhaps as much as 15% from the peak, but this would still leave employment only about 5% below normal, as the peak was much above normal. In some industries, however, such as textiles and automobiles, there has been a decline of from 30% to 40% from the peak in employment in this State.

There has been a stiff increase in reported failures, but the published figures are not yet abnormally large.

There is still a flow of funds away from New York City. Country banks continue to borrow. There has been some outflow of currency to Cuba.

Foreign exchange rates have declined progressively, the exchange market is nervous, and there is little basis for expecting early improvement.

The security market has been subjected to drastic cuts since November of last year and is still reactionary. Great slumps have occurred in the last month in the prices of common stocks of industrial corporations. Railroad common stocks, following a recent advance, have reacted somewhat. Preferred stocks are still declining. The edge is temporarily off the bond market: following a sharp rise, the prices of bonds have become stationary and, in some cases, have declined slightly. On the other hand, new note issues are being absorbed exceedingly well. There has been an increase in the last two weeks in the sales on British and Dutch account of American securities in the New York market.

Every bank statement shows that loans and discounts are going up, while deposits are going down. This is sufficient answer to the criticism from some quarters that the banks are not properly taking care of the commercial interests of the country.

H. B. HEPBURN.

District No. 3 (Philadelphia)

The business situation in the Third Federal Reserve District may be described as being very "blue"; merchandise is steadily falling in price; in some instances as much as from 50 to 75 per cent, without finding purchasers. "With cotton for next month's delivery quoted below 19 cents a pound, refined sugar at 10 cents and raw sugar under 6 cents a pound, coffee around 7 cents a pound, wool and silk demoralized, and a large number of other materials and commodities selling below the cost of production, it is a question whether the readjustment in values has not gone far enough."

In textile lines the outlook is bad. Many mills working only one-quarter to one-half time, and some closed down altogether. Leather and glazed kid are particularly bad. Manufacturers have large stocks on hand, both raw and finished, with very few, if any, buyers. The retail trade has only within the past few weeks seemed ready to make a readjustment in their prices. The merchants are now advertising extensively, offering their stocks at greatly reduced prices, endeavoring to stimulate sales.

The public has apparently made up its mind that it has been held up and forced to pay exorbitant prices and is on a strike against the retailer, who up to this time has been unwilling to reduce his prices, and take the loss on his stock, but has been trying to unload before the readjustment comes.

Labor is much more plentiful and efficient, producing much more in a day's work; transportation has improved so that merchandise is moving more expeditiously. The Pennsylvania Railroad reports that it handled the highest volume of freight traffic ever transported on its system during the month of October. "Reports from all Divisions, which have just reached the general offices in Philadelphia, show that during the month an average of nearly 24,000 loaded cars per day, or 167,461 per week, were forwarded to their respective destinations. This represents more than 870,000 tons of freight a day, or over 6,000,000 tons a week, loaded on the Pennsylvania Railroad, or accepted by it from connecting lines. The nearest approach to the figures for October of this year were those of the corresponding month of 1919, when the daily average of loaded cars handled was 23,700." The farmer, however, still complains of his inability to move his crops to market because of scarcity of labor and car shortage.

The financial situation as far as the demand for money is concerned seems to have improved, although bank loans show but little reduction. The peak apparently has been reached.

Some borrowers have liquidated their borrowings; this is particularly true of the medium-sized business houses, but the large corporations and manufacturing concerns are borrowing heavily, goods having backed up on them because of lack of orders and heavy cancellations.

It is likely that a fresh demand for money will occur when the next quarter of taxes are due in December.

Altogether, we would say that business and financial conditions are far from satisfactory and that the January statements of business concerns are going to show heavy inventories and increased debts, with losses on account of heavy shrinkage in values. Business houses who have much commercial paper out through note brokers are likely to experience difficulty in renewing this paper when their new statements are exhibited.

L. L. RUE

District No. 4 (Cleveland)

The Fourth Federal Reserve District has many and diversified industries, and except for some seasonal activity, the demand for credit may be said to be fairly constant.

The expansion of Bank credit in the past year has been, in some measure, caused by capacity operation of Plants, which have been largely expanded.

The orders necessary to run these Plants were in hand until quite recently, when cancellations began and new orders were largely held up; manufacturers, however, report some excellent inquiries, which are as yet unclosed. Where new business has been closed in iron, steel and machinery, prices have been cut by the successful seller or manufacturer. In many manufacturing establishments the working hours for the week have been reduced from twenty (20) to thirty (30) percent, in order to prolong work and avoid losing good men; in the large establishments, however, in certain industries some Departments have been shut down, and the operation of others reduced, so that many have been thrown out of employment. Collections are generally reported slow, and Notes and Acceptances are being offered freely by debtors in place of cash. Many of the farmers, instead of paying out, are asking for additional credit to buy live stock, and expect to consume their products by feeding them, hoping they will get more in this way.

The lumber people report a quiet business. Some lumber is being offered to dealers at considerably reduced prices; they are, however, unwilling to take on additional stocks, unless it is a specific material for which there is an immediate order in hand.

In the Burley tobacco District, the non-resident buyers are proposing to give Acceptances in place of cash, as heretofore. The figures are so large that the Banks will be obliged to re-discount with the Federal Reserve Bank, and with their City correspondents.

District No. 4 (Cleveland)

The demand for coal has in the past few weeks greatly slackened, due no doubt to the prospect of decreased working hours, and a fair amount of supplies on hand, based on full working time. Prices have dropped thirty to forty per cent.

W. S. ROWE.

District No. 5 (Richmond)

The Fifth District is largely agricultural. The more industrial and commercial sections find their market in the farming district, and are directly affected by conditions there.

Crops have been universally good, the weather fine for harvesting, but prices disappointing. The wave of prosperity following the high priced crops of last year led our people to prodigality in expenditures and they have apparently thought it impossible for prices to recede again. Now that recession has occurred, although from natural causes, the impression seems to prevail largely that there has been combination somewhere to prevent the farmer from reaping the fruits of his toil, and that in this to some extent the Federal Reserve Banks have participated.

In tobacco sections there is some improvement. The farmers are realizing that if business starts up they must set the ball in motion by marketing their products, whether prices are all that could be desired or not.

Cotton prices are so low that no one will sell, and, indeed, if offered in large quantities, there would be no market. The mills are running about half time. They have no advance orders. They cannot borrow money for storing the raw material or manufactured product, even if so inclined.

There is practically no building. Lumber yards are heavily stacked and are without orders.

Labor conditions are less strained, many industries are laying off hands, labor is plentiful but inefficient, wages being reduced.

The market for real estate, investment securities, etc., very active until recently, is largely curtailed, lands still high but no changing hands.

Collections slow, some failures and more would ensue if settlements were generally demanded. There is, however, a spirit of co-operation and everybody feels satisfied that present conditions cannot be long protracted and that a country as productive as ours must be fundamentally sound.

The banks are generally urging liquidation but are inclined to be lenient. They are granting short extensions with hope of gradual curtailment. They are seeking no new loans. They realize that without some movement of the crops and some repayments, funds cannot be furnished for holding crops or for other purposes. Many of the banks themselves are borrowing excessively.

Our people generally do not understand why, with good collateral, they cannot borrow all they want, nor why there should be a shortage of cash. A prominent citizen asked a few days ago, in all seriousness - What has become of all the money? Where is the Government printing press? Why cannot they print sufficient to take care of the crops?

The farmers had plenty last winter. They spent lavishly. They have borrowed to make their crops. They now see no reason why their products should not be readily marketed and not a few are indifferent as to whether their debts are paid or not.

In the last ten days of October, loans to member banks in the 5th District were curtailed everywhere except in North and South Carolina, being reduced from 136 millions to 132 millions. Our Federal Reserve Bank is now borrowing 10 million dollars, although at one time it was borrowing 30 millions. In both the Federal Reserve and State Banking systems some banks are uncomfortably expanded and these, as well as some commercial houses, need careful attention.

Lower prices are beginning to be noticeable but the people seem little inclined to buy. There is a large class who have an idea that in emergencies like the present, the Government should take care of them. This feeling seems to prevail throughout the country and the sooner we get away from it the better.

JOS. G. BROWN.

District No. 6 (Atlanta)

In order to obtain a composite picture of conditions in our district at this time, I addressed a communication to bankers in the various financial centers located therein. I find pretty much the same story coming from Tennessee that is told in Louisiana, these representing the extreme ends of the district. The only variation in the telling of it is the difference in the commodities involved. The condition of the crop varies somewhat from a poor yield to a fair one but the market conditions are very much the same whether is be the products of the textile mills in Tennessee, the lumber of Florida, the rice of Louisiana or the cotton of Georgia. The only notable exception is the anticipated crop of annual tourists to Florida which will mature more rapidly beyond Thanksgiving. Florida is further favored by the largest citrus fruit crop in its history and the naval stores industry is reported to be in a prosperous condition. Tennessee is carrying a considerable volume of both cotton and tobacco over from last season as well as suffering from a stagnant market of the present crop. I was surprised to learn from one of my correspondents that some cotton of the best grade had sold recently at 17¾ cents.

In Mississippi the lumber industry is in a condition of prostration and her long staple cotton, the pride of her production, is no better off as to demand than its smaller sister of the short staple variety. A cotton producer of the delta country told me recently that he had made the most beautiful white cotton that he had ever seen, picked and ginned without receiving a drop of rain, the same kind of cotton which last year brought 97½ per pound but which this year could not be sold at 40 cents. He maintains that this is under the cost of production.

In Louisiana the problem of slow liquidation of cotton loans is being shared, and besides the sugar, rice, and timber production have their own burdens. The sugar acreage is greater than usual and while there are no indications of profit to the planter, there will probably be a fair demand at prices sufficient to liquidate the cost of production. The rice crop will reach the volume of about 13,000,000 pockets in the United States of which about two thirds must find a market abroad. The average price last year was around 11 cents while this year it will be around 5 cents. The sawmills are closing down as in other sections of the lumber belt. In Georgia the chief cause of financial concern is in the status of the cotton crop. The boll-weevil has done his worst there this year. The disposition to hold by the producer is quite marked. In that state as in other parts of the cotton area, even if the producer would sell there is but little demand due to the deranged condition of the export market.

In Alabama the conditions are much the same as in Georgia except to the extent that they may be changed by the industrial production. There is a slowing up however in the demand for pig iron and steel products and in the manufacture of machinery. These are all being somewhat affected by the Cuban moratorium.

The mercantile conditions in the Sixth District are not materially different from those in other districts unless it be that because of the remoteness of the merchants therein from large merchandise centers, that price reductions are much slower. Notwithstanding these adversities, there exists a very determined and cheerful attitude toward the problems of business throughout the District. The bankers together with those of other parts of the South are industriously engaged in organizing the Federal International Banking Company to be located at New Orleans. This will be under the Edge Act and will have a minimum capital of six millions of dollars.

OSCAR WELLS

District #7(Chicago)

In general, the business conditions in this District have continued to follow the course which began earlier in the year. In various basic commodities, price recessions have continued as indicated by the various index numbers that have been published. According to Bradstreet's index, the total decline since May 1st is 18.5 per cent. The prices of textiles and hides have been especially affected, and there has been also a marked decline in the prices of chemicals and automobiles. On the other hand, the prices of iron, steel, coke, coal cement and glass show little change.

How far retail prices have been affected by the undoubted reduction in the wholesale prices of many commodities, it is difficult to state. To be sure, the United States Bureau of Labor Statistics publishes monthly index numbers of retail prices, which show a decline from the record high point of 215 in July to 203 in August, but these index numbers cover only articles of food, 22 in number. The large mail order houses have all announced reductions in prices, chiefly on account of the fact that most of them were overstocked and felt compelled to liquidate and stimulate the sales which have declined considerably. One mail order house (Sears Roebuck & Company) states that its sales for October showed a decline of 40 per cent from the same month last year. Another large mail order house (Montgomery Ward & Company) reports that its sales for October, 1920, showed a decrease of 37.9 per cent from October, 1919. A similar situation is indicated by the reports of other large retailers. It can, therefore, be taken for granted that liquidation is continuing.

It cannot be expected that there will be any permanent changes in many commodities until wages also decrease from their present high point.

In this respect there has been very little change, though undoubtedly within the next months some adjustments will take place. In this connection one of the large steel companies, situated chiefly in Chicago, announced on October 26 that it was laying off 1,000 men. Still more recently it was announced in the daily press that an agreement had been signed in the building trades of Chicago to arbitrate all disputes arising before May 1, 1922. At the same time, the unions made a written promise not to ask for higher wages at the expiration of present contracts. All this gives rise to a belief that wages will follow adjustments in prices, though it may be somewhat slowly.

As regards the grain situation, the corn crop is the highest in fourteen years, and with four exceptions the best in twenty-eight years. It will amount to over 3,000,000,000 bushels, which is roughly 214,000,000 bushels more than in 1919.

The wheat crop of 1920 is somewhat smaller than last year's, the figures being roughly 752,000,000 bushels as against 940,000,000 bushels. The difference, however, is almost made up by a carry-over amounting to over 150,000,000 bushels.

The oat crop is also large, being about 1,444,000,000 bushels, which is 196,000,000 bushels more than last year and 29,000,000 bushels above the average for the last ten years.

As a result of the size of these crops and partly due to general conditions, prices have receded. Owing to these lower prices the farmers have threatened to withhold their crops until a higher price can be obtained. The effect of this was noticeable for sometime especially in the Southwest but more recently shipments of grain to the primary markets have very considerably increased and are now up to normal. The bright prospects in the Southwest for next year's crops have apparently had the psychologic effect on the farmers there of inducing them to let their grain go at current market prices. While throughout the Northwest the banks have exerted their influence to induce or enforce liquidation apparently with some success.

The situation in the cattle business, on the other hand, is really a serious one. At the previous joint meeting of the Federal Reserve Board and the Federal Advisory Council, a committee appeared to present the situation in regard to the cattle raising industry. The conditions then described have not improved, but those interested in the live stock industry of the country now realize that neither the government nor the Federal Reserve Banks can render additional aid. They have turned to the larger banks to relieve some of the dangers to the industry, and it is now proposed to have a group of banks situated in Chicago, New York, Boston, Omaha, Kansas City, Minneapolis and St. Paul, underwrite a fund of approximately $30,000,000 by means of which smaller and weaker banks may be aided in continuing to carry paper sold to them by intrinsically sound cattle loan companies. The Chicago banks have already agreed to underwrite $8,000,000 of this amount. It is hoped in this manner to help the situation, especially in the states of Montana, Idaho, Wyoming and the Dakotas.

It must be noted as a surprising fact, that in spite of the stringency in the money market, there has been no difficulty in floating new issues of securities. To be sure, in all cases the rates of interest and the terms of the issues have been unusually attractive. Among those of special interest to the Seventh Federal Reserve District may be mentioned the following issues:

$60,000,000	Armour & Company 7% notes.
15,000,000	Morris & Company 7½% notes.
40,000,000	Swift & Company 7% notes.
50,000,000	Sears Roebuck & Company 7% notes.
8,000,000	Illinois Central R.R. equipment notes.
1,000,000	Public Service Company of Northern Illinois notes.
3,000,000	Liquid Carbonic Company 8% notes.
3,000,000	Pfister & Vogel Leather Company 7% notes.
5,000,000	Commonwealth Edison Company 7% notes.
500,000	Edison Electric Appliance Company 7% bonds.
400,000	S. F. Bowser & Company 6% notes.
$ 10,000,000	National Leather Company 8% notes
$195,000,000	

Notwithstanding an increase in savings bank deposits, an unusually large proportion of new issues have been placed with small investors so that it has been found advisable to issue securities in denominations as small as $100.00. Government war issues are also continuing to be absorbed by the general public in a satisfactory manner.

Business failures in the Seventh Federal Reserve District have been somewhat on the increase in about the same proportion as in the rest of the country. The failures, however, have been neither so large nor so numerous as to cause any anxiety, and on the whole represent merely the natural process of weeding out firms which were enabled to exist solely as a result of the abnormal conditions brought about by the war.

There has been considerable liquidation of deposits at the centers especially those of Country Banks, This has retarded the reduction in the borrowings at the Federal Reserve Banks by the larger member banks. However fifty one banks in Chicago reporting to the Federal Reserve Bank on November 5 as against 49 banks reporting on September 10th show the following contraction in their figures.

Loans and Investments reduced	$33,389,000.
Deposits reduced	18,014,000.

JAS. B. FORGAN.

District #8 (St. Louis)

PRICE READJUSTMENTS: Some manufacturers and a considerable number of wholesalers, especially in textile, general clothing, and footwear lines, are making reductions in prices. In not a few cases they are frankly taking their losses, which, on account of the relatively high profits during the past six years, will not embarrass many of the concerns. The retailer in general is not showing the same disposition to reduce prices. This is due largely to the following reasons:

<u>First</u>: He has on his shelves a considerable stock of high priced goods upon which he wishes to get profit, or at least cost.

<u>Second</u>: The consumer is yet wary of buying.

<u>Third</u>: Many retailers are poor merchants, and neglect the first and last rule of good merchandising - namely, to turn their goods. They have become accustomed during the last several years, to such high profits that it seems impossible to many of them that they should have to sell goods either on a small, or no margin of profit.

The potential buying power of the public is yet very great but they had to pay such rapidly advancing prices during the war period, that they are rebellious. As a consequence, goods are not being turned at a desirable rate. A period of falling prices, succeeding one of very rapidly rising prices, does not - contrary to popular opinion - stimulate demand. The agriculture interests, especially those having wheat and cotton, greatly resent the falling prices, and are making efforts to hold their commodities. Collections in general are only fair. Normally, loans would be paid off at this season of the year, but many will continue outstanding for a period, until it is fairly clear both to the consumer and to the farmer, that nothing is to be gained from staying out of the market.

FINANCE AND CREDIT: St. Louis bank clearings between January and July, 1920, were from 6% to 10% above the same period of 1919. Since July, bank clearings for every week except one have been below those of the same weeks of 1919, the monthly declines being from 7% to 9% below those of July to November, 1919. Loans, discounts, and deposits of St. Louis banks normally increase between July 1st and November 1st. Last year the increase in loans and discounts during this period was 10%. A slight decrease of less than one percent was shown this year during the July-November period. While the volume of loans and discounts is greater on November 1st, 1920 than on November 1st, 1919, yet the increase occurred during the first half of the year. On July 1st, 1920, loans and discounts were but 33% greater than a year ago. But, due to the absence of the normal increase from July to November, loans and discounts on November 1st, 1920, were only 19% more than on November 1st, 1919. Thus, the demand for funds was greater so much earlier in the year, that the strain on the banks during last summer and early autumn was marked. This condition was accentuated by the decline in bank deposits between July 1st and November 1st of this year. Last year deposits increased 8% in this period. This year they declined 5%. The deposits of country banks with St. Louis banks, were 32% smaller on November 1st, 1920 than on November 1st, 1919.

LABOR SITUATION: There is little unemployment, and in practically no line is there a scarcity of labor. There is little or no disposition to demand increases in wages, and some groups of laborers are becoming interested in the prospect of holding their jobs at the prevailing wages. It is quite possible, with a further readjustment in prices, that the wage earner will be willing to accept a reduction if, after a period, it seems very evident that the manufacturer and distributor has stood all the losses which are possible, and fair for him. .

BUILDING CONSTRUCTION: Building construction has been, and still continues, on a very moderate basis. There has been a disposition to wait for lower prices in construction materials and wages.

SUMMARY: The general business and financial situation is not one which is occasioning any alarm. There is a feeling of confidence in the future. Few business men believe that we are soon to have boom times, and most of them are convinced of the necessity and are willing to accept the losses of readjustment. Indeed, there is a wide spread disposition to want to get on a sound, substantial basis as soon as possible. There are few who have any thought that a panic is threatened, but on the contrary, are calmly viewing a period of industrial slowing up, preliminary to a spring period of some industrial improvement, and substantial, if not exceedingly prosperous, business conditions.

F. O. WATTS.

Business in the Minneapolis District is slowing down quite fast in all lines. This began late last spring, starting in the automobile and tractor business and gradually extending, until now it covers all lines. This District, being largely an agricultural one, our turnover is affected by the outcome of our farm products and the price which these bring. Grain crops, outside of corn, are not up to the average, wheat especially being below the average, and this latter is our greatest cash producing crop. The yield of corn is above the average, but this grain does not move to market early, it being mostly used up in feeding live stock, which brings in money to the country after the turn of the year. Oats, rye, barley, and flax, are as a rule below the average crop, with the possible exception of oats.

The very heavy cost of seeding and harvesting of this year's crop has been a drain on all of the banks in the District, and this, with the small return in bushels, in addition to the very severe break in prices during the past sixty days, is making a very difficult situation for all of the interior banks. Naturally, liquidation which goes on when these crops are being sold in the fall is being entirely changed, first, because of the fact that what crops the farmers have, at the present prices, are not sufficient to pay all their debts, and second, because of the break in prices many farmers are refusing to sell what they have, and there is shrinkage in their deposits from those who owe nothing and who will not sell their grain. Country banks are being importuned for additional accommodations, and as they are more or less in sympathy with the farmer in his endeavor to hold his grain for higher prices, they are in every way trying to meet this demand by borrowing from the Federal Reserve Bank and their other city correspondents.

BANKING.

Conditions in the banking business are not easy, especially so in the interior banking points. Many banks find themselves heavily loaned up, in many cases with non-liquid assets, caused by the heavy speculation in farm lands and the purchase of tractors and automobiles, and the erection of new buildings. This forces them into the Federal Reserve Bank and the city correspondents for excessive amounts - much more than they ever were accustomed to ask for in previous years, making the situation far from easy and, in fact, in many places uncomfortably close.

The determined effort upon the part of the farmers to avoid the selling of their grain on the present low market is affecting collections, not only withtheir own banks but with jobbers and manufacturers, through the fact that local merchants in the various small towns are unable to liquidate their bills. This in turn stops the liquidation of loans to city banks from their larger customers, and from present appearances, means that a great many loans which are naturally paid before the first of the year are going to be carried over into the new year. There is one thing, however, which I believe to be a good thing, and that is the present closeness of money; and the loss which most of the farmers are up against on account of the prices is forcing the very closest economy, not only in expenditures but in purchases, and if this is carried through the next year I have no doubt that our District will show a very rapid recovery and our conditions be more nearly normal after the harvesting of next year's crop.

At the present time I cannot see very much prospect of the larger city banks being able to go out of debt to the Federal Reserve Bank for some months to come; in fact, my opinion is that they will be borrowers at the Federal Reserve Bank through the year 1921.

C. T. JAFFRAY

District No. 10 (Kansas City) X-2060

Conditions in this District have been unusual and disappointing. The second largest crop of wheat was raised this year in Kansas and it was natural to expect that deposits would increase and loans would be liquidated, but on the other hand deposits did not go up and there has been a pressing demand for money. In the first place the Railroads could not furnish cars to move the wheat, and when the wheat began to decline the farmers did not care to sell, but recently the banks in the larger centers have been pressing the country banks to have the farmer ship any way enough of his products to pay his indebtedness. This move is beginning to show some result, but rather slow.

There appears to be nothing in the mercantile trade to indicate any decided change in the tendency prevailing for some time. The sweeping price reductions of the last few weeks seem to have unsettled the public to such an extent that purchasers are holding off buying beyond the actual necessities, expecting prices to go down still more. Wholesalers and retailers are more cautious in their buying than ever. Retailers are endeavoring to unload their high cost stocks and are buying from hand to mouth. The wholesalers have had some unpleasant experiences with their customers, some cancelling orders while others actually return goods which had been shipped to them.

Underlying these conditions there seems to be a feeling, however, that business will, with adjustments now going on, begin to improve after the new year. Whether the "wish is father to the thought" is to be seen later.

The live stock situation has improved. There have not been as many cattle coming to market as compared with one or two years ago. The farmers have abundance of feed and in all cases where possible the banks have tried to aid in carrying these cattle over as there is no question but that there is a shortage in meat animals.

Production of crude oil is about 400,000 barrels per day in Kansas and Oklahoma. The output is in excess of the consumptive demand and there is a tendency to hold back on development operation.

In the lead and zinc fields production of ores has been regulated by market demand. In October, for instance, nearly all the mines were shut down for period of two weeks in order to curtail the output and dispose of large surplus stocks.

Building operations have slumped perceptibly during the last half of the year, but with greatly lowering prices of material indications are that renewed activity will come along in this line.

E. F. SWINNEY.

The depressed cotton market and cattle market hit hard the two principal industries of this district, making the loanable values of these commodities uncertain from the bankers' viewpoint, even if abundant funds were available, and as a consequence there is at the present time considerable pessimism,- with the cotton raisers primarily because they cannot borrow funds with which to carry over their crops, and with the cattle interests because many cannot get renewals and extensions of their present loans, and another large class are unable to borrow money with which to buy cattle to re-stock their ranges, the ranges as a whole being sparsely stocked at the present time.

These same conditions make the banker more cautious and, with uncertain markets ahead for both of said main commodities, the conservative banker is slow to avail himself of discounting privileges with the Federal Reserve Bank, and as a further consequence of this dual situation money remains tight with prevailing high rates.

From a general view point, however, conditions are thoroughly sound, as we have raised an abnormal cotton crop, which, even at the low price, when marketed will return a vast sum of money; and I believe I am safe in saying that the major portion of the cattle loans are being adjusted and extended, so that comparatively few cattle from this district are being forced upon the market and, as the range conditions are exceptionally good and cattle will remain fat during the winter, it is probable that a large amount of these loans will be liquidated, even before spring.

I believe every well-posted thinking man has the utmost confidence in the outcome, without very serious detriment or loss to any one who is reasonably conservative, though there is quite a considerable element that complain greatly and seem unable to realize that we are going through the necessary readjustment period necessitated by the inflation during war times, and many

District No. 11 (Dallas)

seem not to realize that it is impossible to deflate without reducing and restricting to a considerable extent all commercial activities.

In my opinion one of the greatest works for the banker is to talk with and convince his customers, and all with whom he comes in contact, that we are going through a necessary period of re-adjustment, and such only as has followed all the great wars, but with our own country in better condition and experiencing less disturbance from this readjustment than any other nation in the world.

The banks of this district are as a whole in a thoroughly strong and safe position, and indeed probably some could be properly critisized for not being more liberal toward their customers, and to that end availing themselves to a greater extent of their discount privileges with the Federal Reserve Bank.

R. L. BALL.

Financial and Commercial Situation in the Twelfth District with special reference to the Northwest:

Lumber: This leading industry of the Northwest shows a falling off due to increased freight rates which make it almost impossible for our mills to compete in the Eastern markets, although some of the tidewater mills are getting relief by water shipments. However, the railroads are now purchasing lumber which is keeping some of our lumber mills in operation. Housing conditions throughout the United States also would seem to indicate that before long there should be a pronounced demand for the output of our mills. As yet the average wage paid in our lumber mills, viz, $8.00 per diem, has not been reduced, but unless labor accepts a reduction of the present scale more of our mills will have to close down.

Wheat; Flour The farmers who are able to hold their wheat are not disposed to sell at the present price. Indeed, there is not much movement in wheat as buyers generally are out of the market due in large measure to the condition of foreign exchange. The result is there is comparatively little liquidation of this year's crop. Most of the country flouring mills have closed down and those who are buying are only purchasing in small quantities. This check in liquidation of our most important crop has resulted in the country banks leaning heavily on their city correspondents at a time of the year when usually the country banks are not only not indebted to the city banks, but on the other hand are carrying hansome balances.

Salmon: While the salmon pack on the Columbia River is moving and selling at satisfactory prices, nevertheless the demand for Pinks and other lower grades of salmon is so limited that there is a very large carryover of the Alaska pack which means a tieup by the banks of large amounts of money.

Fruit: Packing in this line was much curtailed this season by the high price of sugar. Although a goodly portion of the output has already been sold on contract, nevertheless apparently a contract is regarded by purchasers only as an option, since in many cases purchasers are endeavoring to be relieved from their agreements.

Cattle-Wool: The situation in the livestock industry is very serious. The absolute lack of demand for wool, making it impossible to dispose of the same, has caused a very large carryover, with a consequent tieup of funds. Both with cattle and sheep it is of paramount importance that provision should be made for carrying the stock through the Winter. Although hay is plentiful and is selling as low as $5.00 and $6.00 per ton (as against $20.00 to $25.00 last year) nevertheless it seems impossible for the stockmen to obtain funds with which to purchase feed. Without an adequate supply of feed the losses in the sheep and cattle business this coming Winter will be enormous. This, together with the forced sales now taking place of young cows and breeding ewes, not only will seriously cripple the livestock industry of the country, but also will endanger the meat supply of the United States.

General Business: Our wholesalers and jobbers continue to report business as good and generally claim that the volume is greater than for the same period in 1919. They state collections are fair but slowing down. All recognize however with conditions as they are throughout the Northwest, that sales must fall off, and in order to move stocks some are quoting lower prices to interior merchants.

They also report some cancellation of orders.

Retailers in Portland, especially the department stores, shoe stores and clothing houses, are cutting prices from 25 to 35 per cent. They advise they are buying from the East only in small quantities, and to supply their absolute needs. Retailers state that the character of their sales has changed from a year ago. Whereas at that time they could not carry goods expensive enough to satisfy the demand, today the demand for high priced goods is small and consumers are buying lower priced articles.

Labor: As yet there is not much idle labor, nor any material reduction in wages, but with the approach of Winter and the possible closing down of logging and lumber operations there is a likelihood of a large increase of the unemployed during this coming Winter. How much trouble this will cause cannot be determined today.

Banks and Banking: From what has been said above one can easily see that the banks of the Northwest are all carrying a heavy load; country banks are leaning on their city correspondents and the city correspondents are doing their best to meet the situation; but with comparatively small liquidation of basic products, and with merchants and retailers still heavy borrowers, the financial situation is fast becoming serious.

While no criticism can be made in regard to the policy of deflation adopted by the Federal Reserve Board last Spring, it is a matter for serious consideration whether the continuation of the present policy of deflation may not become destructive

District No. 12 (San Francisco)

and seriously affect the production of those things that are absolutely necessary for the maintenance of us all. If the Board and Council can devise means to ease up the present credit stringency without endangering our financial system, their determination will meet with universal commendation. In the writer's opinion a public statement from the Federal Reserve Board that

> "the legitimate carrying of commodities which must be consumed, such as grain, cotton, livestock and wool, will receive liberal support from the Board at this time"

would aid the banks materially in handling the present situation.

A. L. MILLS.

FEDERAL RESERVE BOARD

WASHINGTON

X-2061

November 16, 1920.

SUBJECT: Apportionment of Expense of Insurance Premiums in Connection with Vault Tests.

Dear Sir:

The Federal Reserve Board recently decided to insure itself and the Government against loss from any damage which might result from the vault tests now in progress in Washington under the supervision of its Consulting Architect, Mr. A. B. Trowbridge. The Board felt that these tests involve risks which made it advisable to take out this insurance, but as insurance premiums are not considered usual items of expense for governmental establishments the Board believes it preferable that the premiums for this insurance be paid by the Federal Reserve Banks rather than by the Federal Reserve Board.

Arrangements have been made whereby the Federal Reserve Bank of New York will pay these premiums, amounting to $1,100, and apportion the expense among all the Federal Reserve Banks. You will doubtless receive from the Federal Reserve Bank of New York in the course of the next few days a statement of your proportionate share of the expense.

Very truly yours,

Governor

CHAIRMEN OF ALL F. R. BANKS except New York.

FEDERAL RESERVE BOARD

WASHINGTON

November 17, 1920.

X-2062

Subject: Federal Reserve Bulletin: Special Rate to Examiners of State Banking Departments.

Dear Sir:

In accordance with the custom prevailing during the past two years whereby the Federal Reserve Banks have undertaken to supply examiners of State Bank Departments located in their Districts with Federal Reserve Bulletins in an endeavor to foster a better spirit of cooperation between Banking Departments and the Federal Reserve System (See the Board's letters X-1335 and X-1751 of December 27, 1918 and December 10, 1919, respectively), the Board believes that it would be well to continue the same policy this year and has accordingly fixed a special rate for such subscriptions by Federal Reserve Banks at $2.00 each per annum.

Will you please send to the Board at your earliest convenience, and in no event later than December 15th, a list of the State Bank Examiners to whom you desire the Bulletin sent during the ensuing year, as the subscriptions expire with the December issue.

Very truly yours,

Assistant to Governor.

To Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 18, 1920.

X-2063

Subject: Foreign Branches Open for Business on November 18, 1920.

Gentlemen:

It is intended to publish in the December issue of the Federal Reserve Bulletin a complete list of foreign branches of national banks and foreign banks doing business under agreement with the Federal Reserve Board, which were open for business on November 18, 1920.

It will be appreciated, therefore, if you will furnish this office, as soon as convenient, with such a list for your institution.

Very truly yours,

Assistant to Governor.

Sent to all national banks having foreign branches and foreign banks doing business under agreement with the Federal Reserve Board.

FEDERAL RESERVE BOARD

WASHINGTON

November 22,1920.
X-2064

Subject: Commercial Telegrams Chargeable to the Federal Reserve Board. Revised Method of Accounting.

Dear Sir:

Referring to the Board's letters X-1611 (July 9, 1919) and X-1697 (Oct. 10, 1919) wherein instructions were transmitted concerning the method of preparing official telegrams to be sent over the commercial wires for account of the Federal Reserve Board, you are advised that at the request of the Western Union Telegraph Company and the Postal Telegraph Cable Company the Federal Reserve Board has agreed to a revision of the method of settlement for services performed and the following arrangement will become effective December 1, 1920:

(a) Telegrams sent via Western Union or Postal Telegraph to the Federal Reserve Poard "collect" will be paid for by the Federal Reserve Board at Washington.

(b) Telegrams via Western Union or Postal Telegraph sent "paid" or received "collect" by Federal Reserve Agents on Federal Reserve Board business will be billed monthly by the Telegraph Companies against the respective Federal Reserve Agents, for account of the Federal Reserve Board, at Government rates. These telegrams will be assembled by the local representatives of the Telegraph Companies in the respective Federal Reserve cities and transmitted monthly with bills and Federal Reserve Board vouchers to the Federal Reserve Agents. The Federal Reserve Agents will examine and certify to the correctness of the bills and forward them to the Board by registered mail. The Board will make payment direct to the Telegraph Companies' local representatives in each of the Federal Reserve Cities.

IN EXPLANATION OF THE FOREGOING:

1. Telegrams covered by section (a) when sent over Western Union or Postal Telegraph Company wires addressed to the Board at Washington should bear the notation - "Official Business, Collect Government Rates, Federal Reserve Board."

2. Telegrams covered by section (b) when sent by the Federal Reserve Agents on Federal Reserve Board business should bear the notation - "Official Business, Paid Government Rates, Charge Federal Reserve Agent" (give the name of the Federal Reserve City). When sent by Clearing House managers to the Federal Reserve Agents, on Federal Reserve Board business, they should bear the notation "Official business, Collect Government rates".

3. Bills and vouchers with messages must be forwarded to the Board by registered mail, for the reason that settlement is made on original telegrams or water copies only, and their loss in the mail would make impossible a settlement by the Board.

It will be noted that the foregoing arrangement refers only to official telegrams transmitted or received for account of the Federal Reserve Board, and that it does not pertain to telegrams on Bank business.

Under the order of the Postmaster General, dated July 1, 1920, Government domestic telegrams are subject in all respects to the prevailing commercial count of chargeable words, and the address and signature of a domestic telegram are transmitted free, in accordance with the commercial practice. The charge for a Government domestic telegram is 40% of the prevailing commercial charge for the same class of service, with a minimum charge of 25¢ for a day telegram, 20¢ for a night telegram, 30¢ for a night letter, and 45¢ for a day letter.

The Telegraph Companies will transmit instructions to their local representatives in each Federal Reserve City, and you are requested to communicate with them as to the details of the plan. They will also furnish copies of all local commercial tariffs, etc.

There is enclosed for transmittal to the local representatives of the Telegraph Companies a supply of Federal Reserve Board Voucher #52.

Very truly yours,

Enclosures.

Assistant to Governor.

To Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 18, 1920.

X-2065

Subject: Inter-district Time Schedule.

Dear Sir:

With circular letter X-1842, dated February 24, 1920, the Board transmitted to you a copy of the Inter-district Time Schedule prepared by this office. Several changes have been made by the Board, based generally upon agreement between the two Federal Reserve Banks concerned in each change, and the Schedule, as amended to date, appears on page 987 of the September Bulletin. At the Conference of Governors held October 14 and 15, 1920, the program contained the topic "Relation of the Board's Inter-district Schedule to the Intra-district Schedules" and the Committee appointed to consider this topic reported that "each Federal Reserve Bank should correct its schedule to its member banks as soon as possible".

It is requested that all Federal Reserve Banks, between now and January 1, 1921, give careful attention to the Board's Inter-district Schedule with a view to correcting any errors which may occur therein. It is most important that all errors should be promptly eliminated, inasmuch as, upon the date indicated above, the Board will require all Federal Reserve Banks to extend to their member banks, through their respective Intra-district Schedules, the transit and collection time set forth in the official Inter-district schedule.

No change in the Inter-district schedule will be considered unless the change accords with the actual time taken to collect, and all proposed changes should be submitted for approval only after an agreement has been reached by the two Federal Reserve Banks concerned.

Very truly yours,

Governor.

To Governors of all F.R Banks

Copy to Federal Reserve Agents.

FEDERAL RESERVE BOARD

WASHINGTON

X-2066

November 18, 1920.

SUBJECT: Expense of Gold Shipments.

Dear Sir:-

Referring to mimeograph letter X-1861 of March 17, 1920, in regard to express and insurance bills covering shipments of gold coin from the Denver Mint to the Subtreasury at San Francisco, I beg to advise that the Board is now in receipt of bills covering further shipments aggregating $56,250 on account of expressage, and $5,000 on account of insurance, or a total of $61,250.

Based upon paid-in capital and surplus, the portion of this amount chargeable to each Federal Reserve Bank is as follows:-

Boston	$4,651.98
New York	18,019.57
Philadelphia	4,994.72
Cleveland	5,584.23
Richmond	3,098.61
Atlanta	2,567.65
Chicago	8,758.83
St. Louis	2,368.28
Minneapolis	1,990.46
Kansas City	2,998.00
Dallas	1,913.54
San Francisco	4,304.13

Please deposit the amount chargeable to your bank in the General Account, Treasurer, U. S., on your books, and issue C/D on form 1, National Banks, for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", Expense of Gold Shipments, sending duplicate C/D to the Federal Reserve Board.

By direction of the Federal Reserve Board.

Very truly yours,

Fiscal Agent.

FEDERAL RESERVE BOARD

WASHINGTON

November 22, 1920.

X-2067

Subject: Queries with Respect to Interlocking Directorates.

Dear Sir:

In the report which the accompanying letter dated November 22, 1920, requests you to make, the Board would like to have you answer specifically the following questions as to each interlocking directorate reported by you by reason of there being competition which is more than nominal between the banks involved:

1. The location of each bank: whether in the same or in different places or cities.
2. How far distant from one another.
3. If situated in the same place or city, are they in the same or different business community.
4. Do they serve or solicit business from the same or different classes of customers.
5. The amounts loaned by each bank on customers' paper, secured or unsecured.
6. The amounts invested in paper bought in the open market.
7. What interest rate, if any, does each bank pay on each class of deposits.
8. What is volume of each class of deposits.

Yours very truly,

Governor.

To Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 22,1920.
X-2068

Subject: Acceptances against Shipping Documents.

Dear Sir:

The Federal Reserve Board has been asked to rule upon the eligibility of bankers' acceptances created under the following circumstances:

Cotton seed oil is sold and shipped by a mill to a refiner. The mill draws a sight draft upon the refiner and attaches the bill of lading covering the cotton seed oil shipped. Upon receipt of the sight draft with bill of lading attached, the refiner pays the sight draft and retains the bill of lading. The refiner desires to draw ninety day drafts for acceptance by his bank, the bill of lading to be attached to the draft at the time of acceptance but to be returned to the refiner immediately thereafter. The facts which have been presented to the Board do not indicate how long a period of time it takes for the completion of the shipment from the mill to the refiner, but it is to be inferred that the shipment will be concluded shortly after the drawing of the drafts by the refiner. In fact it is urged that the drafts must be drawn for ninety days because it will require at least that time before the refiner can refine the cotton seed oil, and reship the finished product and receive payment therefor.

The Federal Reserve Board is of the opinion that drafts drawn under these or similar circumstances are not eligible for rediscount by Federal Reserve Banks.

The Board has heretofore ruled that drafts drawn by the purchaser of goods and secured at the time of acceptance by bills of lading covering the goods bought are not eligible unless the proceeds are to be used to pay for the goods. (Federal Reserve Bulletin May 1917, page 380; Federal Reserve Bulletin January 1920, page 66). Under the facts which have been presented to the Board in the present case, it is not clear whether the refiner is to use the proceeds of the bankers' acceptance to pay the mill for the cotton seed oil covered by the bill of lading. If not, the acceptance would be ineligible upon this ground.

Furthermore, even though it should appear that the refiner is to use the proceeds of the draft to pay for the cotton seed oil purchased, the circumstances would not, in the Board's opinion, justify the issuance of a ninety day acceptance credit, since it is apparent that the credit is desired for the purpose of adding to the working capital of the borrower rather than to finance the shipment of goods during the period that the shipment is continuing. A credit for such a purpose should, of course, be granted upon the borrower's promissory note rather than by means of bankers' acceptances.

In the ruling in the January 1920 Bulletin it was said with reference to certain renewal acceptances "the spirit of the law does not contemplate that acceptances based upon the domestic shipment of goods shall be used as a cloak to finance the carrying of those goods throughout the process of manufacture into finished products". The principle there stated is equally applicable to original acceptances based upon the domestic shipment of goods.

Regulation A of the Board's Regulations, Series of 1920, provides in Section B, Subdivision (c) (2) that -

> "Although a Federal Reserve Bank may rediscount an acceptance having a maturity at the time of rediscount of not more than three months, exclusive of days of grace, it may decline to rediscount any acceptance the maturity of which is in excess of the actual or customary period of credit required to finance the underlying transaction or which is in excess of any period reasonably necessary to finance such transaction".

Where bankers' acceptances are drawn against bills of lading, the underlying transaction is, of course, the domestic shipment of the goods covered by the bill of lading. The period during which the acceptances are to run should, therefore, have some relation to the period of time actually required for the shipment. The acceptance of drafts secured by bills of lading for the primary purpose of providing the borrower with working capital during the period required to manufacture and resell the goods covered by the bills of lading is an abuse of the domestic acceptance privilege which should be carefully guarded against: and Federal Reserve Banks should decline to rediscount or purchase acceptances made for such purpose.

Very truly yours,

Governor.

To Chairmen and Governors of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 22,1920.

X-2069

Instructions with reference to sending official telegrams via Western Union Telegraph Company and Postal Telegraph Cable Company by officers and employees of the Federal Reserve Board.

The Federal Reserve Board has entered into an agreement with the Western Union Telegraph Company and the Postal Telegraph Cable Company, effective December 1, 1920, whereby official messages sent over the wires of those Companies by officers, employees, or representatives of the Board while traveling shall be paid for at Government rates when presented for transmission.

For your guidance in filing telegrams, the following information is submitted:

1. The Government rate, under the order of the Postmaster General dated July 1, 1920, is 40% of the prevailing commercial rate with minima as follows:

(a) Day telegram - 25¢ minimum
(b) Night telegram - 20¢ "
(c) Day letter - 45¢ "
(d) Night letter - 30¢ "

2. In computing the charge, Government telegrams are subject in all respects to the prevailing commercial count, and the address and signature are transmitted free, in accordance with commercial practice.

3. No war tax should be assessed by the Telegraph Companies on telegrams sent on official business.

4. When filing telegrams, the original and one copy should be submitted to the Telegraph Company together with evidence that the sender is an official, employee or representative of the Federal Reserve Board. The carbon copy will be receipted and returned to the sender, who will forward it to the Federal Reserve Board as a sub-voucher attached to his expense account when submitted for reimbursement.

Respectfully,

R. G. EMERSON,

Assistant to Governor.

FEDERAL RESERVE BOARD

WASHINGTON

November 24,1920.

X-2070

Subject: Extension of Credit to Farmers.

Dear Sir:

The Board has received several telegrams recently from individuals and Boards of Trade in towns located in Northeastern Nebraska, South Dakota, and North Dakota, all couched in substantially the same words and phrases, urging the Federal Reserve Board "to declare that an emergency now exists and to arrange for credit extension to farmers".

For your information, a copy of one of these telegrams is sent to you herewith, together with a copy of the Board's reply.

Very truly yours,

Enclosures.

Governor.

To Chairmen of all F.R. Banks.

X-2070 a

COPY OF TELEGRAM

Hon. W.P.G. Harding,
Governor, Federal Reserve Board, Washington, D.C.

Our country is full of corn, oats, immature pigs and partly fatted cattle. Your Board is insisting that farmers sell these products to reduce existing indebtedness. The only salable produce is corn at 40 cents and oats at 33 cents per bushel. A sale at this price will not pay the cost of raising the crop and will not liquidate any indebtedness but will simply force the crops into the hands of speculators and a very large part of the farmers into bankruptcy and at a time when the consumer is able to pay a fair price. This means that general bankruptcy will follow. We earnestly urge your Board to declare that an emergency now exists and to arrange for credit extension to farmers so that some of the existing indebtedness can be paid out of the proceeds of the present crop. Your Board outlined a policy last spring to bring down prices and in so far as prices of farm products are concerned you have certainly more than accomplished your purpose. If your Board would bring pressure to make a decent market our farmers would gladly sell their products.

November 24,1920.

Dear Sir:

A telegram dated November 22nd, signed by yourself and in behalf of one hundred and eighty-five others, has been received and duly considered by the Federal Reserve Board.

Our information is that the price conditions of which you complain are due in part to the difficulty of maintaining a large volume of exports because of the credit situation abroad, in part to the unusually large crops which have been produced this year, and in part to the fact that the farmers, for one reason or another, carried over a larger amount than usual of last year's crops. The fall of prices has also been accelerated because of greater economy on the part of consumers and their reluctance to pay the prices which prevailed some months ago.

The Federal Reserve Board regrets the embarrassments which are attendant upon the commerce, business and agriculture of the country, but desires to state most positively that these conditions have not been brought about by any acts or policies of the Federal Reserve Board or the Federal Reserve System. On the other hand, the Board confidently asserts that but for the precautionary measures taken several months ago conditions would have been far worse today than they are and the prospects of stabilization and recovery much more remote. The Federal Reserve Board has not insisted that farmers sacrifice their products or that they adopt any particular policy. The Federal Reserve Banks do not deal directly with the public but are permitted by law to rediscount for member banks paper defined by the Federal Reserve Act as eligible.

There has been no reduction in the volume of credit extended by the Federal Reserve Banks during the past year, for the volume of paper rediscounted by Federal Reserve Banks and the amount of Federal Reserve notes outstanding are each higher by several hundred millions of dollars than a year ago. Member banks have rediscounted with Federal Reserve Banks a much larger proportion of their total loans and discounts than they have ever done before - an amount about ten times greater than normal. The Federal Reserve Banks in the agricultural districts have discounted for their member banks amounts so large that in many cases their own reserves would have been reduced to less than one-half the legal minimum but for the fact that they were permitted by the Federal Reserve Board to rediscount with other Federal Reserve Banks. The total volume of these inter-bank rediscounts which have gone for the larger part to member banks in farming sections has at times been in excess of $250,000,000. This represents a sum more than eight times as great as the maximum deposits ever made by the United States Treasury with national banks to aid in crop moving operations.

The Federal Reserve Board is advised by the Federal Reserve Bank in your district that credit facilities are not being denied to your member banks, although many of them have under discount amounts far in excess of what would be regarded as a normal and reasonable line. The Federal Reserve Bank has merely insisted that as notes which have been rediscounted with it are paid the borrowing member bank apply the proceeds to the reduction of its indebtedness to the Federal Reserve Bank.

Neither the Federal Reserve Board nor the Federal Reserve Banks undertake to direct the credit policy of member banks; this rests with the directors of each such institution, and, of course, the Federal Reserve System has no control whatever over the credits of non-member banks. No doubt many banks feel that they are unduly extended and are endeavoring to secure liquidation or reduction of loans at maturity, but any direct pressure brought to bear upon the farmer to sell his products is exerted by the member and non-member banks and not by the Federal Reserve Board.

Numerous telegrams have been received during the past two days, couched in substantially the same words and terms as yours, from individuals and trade bodies in your section indicating organized effort to bring pressure to bear upon the Federal Reserve Board. In each of these telegrams the Board is urged "to declare that an emergency now exists and to arrange for credit extension to farmers". Such a declaration by the Board would be liable to cause a real emergency and would accentuate the distress instead of relieving it. An extension of loans to farmers can be granted only by the banks with which the farmers deal or to which they are indebted. The Federal Reserve Board has been a consistent advocate of orderly marketing of crops, but as has been pointed out by members of the Board in public addresses, orderly marketing does not mean the tying up of bank credits and the withholding of entire crops from the market by means of additional credits from banks, but means gradual sales. The application of the proceeds of these sales to existing indebtedness would place the individual farmer, the merchant and the local bank in stronger position and would make it possible for the local bank to do more for the farmer than it can do if crops are withheld entirely. I am sending you a copy of an address which I made several weeks ago before the Chamber of Commerce, at Cleveland, Ohio, and would invite your attention particularly to those paragraphs which have been marked.

In conclusion I would say that the Federal Reserve Board recognizes the fact that agriculture is a basic and vital industry. The Board has always assumed a sympathetic attitude towards all matters relating to agriculture and it has done, is doing and will continue to do all it can in a legitimate and proper way to assist the farmer in his credit problems. It will not, however, be forced into the adoption of policies which in its judgment would be unwise and ruinous, and which would eventually involve the farmer, as well as others, in disaster.

Very truly yours,

W. P. G. HARDING,

Governor.

FEDERAL RESERVE BOARD

WASHINGTON

November 24,1920.

X-2071

Subject: Agricultural Implement Paper.

Dear Sir:

The Federal Reserve Board receives from time to time inquiries with reference to the eligibility for rediscount by Federal Reserve Banks of paper arising out of the purchase of agricultural implements and farm machinery of various kinds. In view of these inquiries the Board has made the following ruling:

Definition of Eligible Commercial and Agricultural Paper

The regulations of the Federal Reserve Board define eligible commercial and agricultural paper as notes, drafts or bills of exchange which have been issued or drawn, or the proceeds of which have been used or are to be used in the first instance in producing, purchasing, carrying, or marketing goods (including goods, wares, merchandise or agricultural products, including live stock) in one or more of the steps of the process of production, manufacture or distribution. If a note, draft, or bill of exchange has been issued or drawn, or the proceeds have been or are to be used, for an agricultural purpose, that note, draft, or bill of exchange may be eligible for rediscount if it has a maturity at the time of rediscount of not more than six months exclusive of days of grace. On the other hand, if a note, draft, or bill of exchange has been issued or drawn, or the proceeds have been or are to be used, for a commercial purpose, it will not be eligible for rediscount if it has a maturity at the time of rediscount in excess of ninety days exclusive of days of grace. The Board's regulations further provide that no note, draft, or bill of exchange is eligible for rediscount if the proceeds have been or are to be used for permanent or fixed investments of any kind, such as land, buildings, fixed machinery, or for any other capital purpose. A copy of the Federal Reserve Board's regulations, Series of 1920, is enclosed, herewith, Regulation A of which deals with the subject of the eligibility of paper for rediscount by Federal Reserve Banks.

Two general classes of Eligible Agricultural and Commercial Paper.

It will be observed that there are two general classes of eligible agricultural and commercial paper, (1) paper which is eligible because issued or drawn for an agricultural or commercial purpose, and (2) paper which is eligible because the proceeds have been or are to be used for an agricultural or commercial purpose.

Notes given in payment for Articles Purchased.

Since the purchase and sale of goods of any character is a commercial transaction from the standpoint of the seller, a note of a buyer given to the seller in payment for articles purchased is a note which has been "issued or drawn" for a commercial purpose. Such a note may, therefore, be eligible for rediscount irrespective of whether or not the articles purchased will constitute a permanent or fixed investment in the hands of the ultimate producer. This is true whether the buyer is a dealer, purchasing articles for re-sale, or is a farmer purchasing articles for his own use.

Notes the Proceeds of which are used to Purchase Articles.

If a note is not "issued or drawn" for a commercial or agricultural purpose, its eligibility or ineligibility for rediscount must be determined by the purpose for which the proceeds have been or are to be used. The use of proceeds to purchase goods for re-sale is a commercial purpose even though the articles are of such a character that they must be considered permanent investments in the hands of those who ultimately purchased them. Consequently the note of a dealer discounted by him at his local bank to provide funds to purchase articles for re-sale may be eligible for rediscount as commercial paper irrespective of the character of such articles. A note of a farmer, however, discounted by him at his local bank to provide funds with which to purchase articles for agricultural uses is eligible or ineligible for rediscount according to the character of such articles. The farmer's note is ineligible for rediscount if the articles are in the nature of a permanent or fixed investment, but on the other hand if they are articles which are for agricultural uses and which have to be replaced from time to time the farmer's note may be eligible for rediscount as agricultural paper.

Articles in the Nature of Permanent or Fixed Investments.

Whether or not given articles are in the nature of permanent or fixed investments as that term is used in the Board's regulations, is a question which depends upon the circumstances in each particular case. The Board has ruled that farm tools, agricultural implements and machinery, and other farm operating equipment do not constitute permanent or fixed investments when they are of such a character that they have to be replaced within a comparatively short time, so that it may be assumed that a farmer will have to spend a certain amount of money annually and regularly for the purchase and replacement of equipment of this kind (F.R. Bulletin, Feb. 1916, page 67). So also, the Board has specifically ruled that a tractor, like horses and mules, bought for farm work and purchased with several years' use in view, does not constitute a permanent or fixed investment, and that a note, the proceeds of which are used to pay for such a tractor, may be eligible agricultural paper. (F.R. Bulletin, Apr. 1918, page 309). On the other hand, the Board has ruled that a silo is a permanent or fixed investment and that a note the proceeds of which have been used to build a silo is not eligible agricultural paper. (F.R. Bulletin, Oct. 1918, page 971). The Board has also ruled, upon the basis of the facts in the particular case, that an electric system furnishing light and power for an individual farm is in the nature of a permanent or fixed investment within the meaning of the Board's regulations.

Distinction between Agricultural Paper and Commercial Paper

The purchase and sale of any articles or commodities including agricultural products is a commercial rather than an agricultural transaction. Consequently the note of a dealer, whether it is given in payment for articles or commodities purchased for re-sale or is discounted by the dealer at his bank to provide funds with which to purchase such articles or commodities, can be eligible for rediscount only as commercial paper, even though the articles or commodities will be used by the ultimate purchasers for agricultural purposes. Such a note can be eligible for rediscount, therefore, only when it has a maturity at the time of rediscount of not more than ninety days. The note of a farmer, however, given in payment for articles or commodities purchased, may be considered agricultural paper which is eligible for rediscount when it has a maturity at the time of rediscount of not exceeding six months, provided that the articles or commodities purchased are to be used by the farmer for agricultural purposes and are not in the nature of permanent or fixed investments. So also, of course, the note of a farmer, discounted by him at his local bank for the purpose of providing funds to purchase such articles or commodities, may be eligible for rediscount as agricultural paper when it has a maturity at the time of rediscount of not more than six months. Since the purchase and sale of agricultural products is a commercial rather than an agricultural transaction, a note given to a farmer in payment for agricultural products grown by him cannot be eligible for rediscount as agricultural paper, but may be eligible as commercial paper if it has a maturity at the time of rediscount of not more than ninety days.

Same principles apply to Drafts as to Notes.

In the foregoing statements and discussions of hypothetical cases where payment for goods purchased is made by the buyer giving to the seller a negotiable instrument representing the buyer's obligations, it has been assumed for the sake of brevity that the negotiable instrument would be a note of the buyer. As a matter of fact, in such cases the buyer may either make his own note or accept a draft drawn on him by the seller. In either case, however, the same principles will apply in determining whether the instrument representing the buyer's obligation is commercial paper, which cannot be rediscounted if it has a maturity in excess of ninety days, or agricultural paper, which may be rediscounted with a maturity not in excess of six months.

No Obligation to Rediscount Paper even though Eligible.

It should be understood, of course, that even though a bill or note may technically be eligible for rediscount, a Federal Reserve Bank is under no obligation to rediscount it, but may accept it or refuse it in the exercise of its discretionary power.

Yours very truly,

Governor.

To Governors and Federal Reserve Agents.

FEDERAL RESERVE BOARD

WASHINGTON

November 29,1920.
X-2072

Subject: Exhibits M and N, 1920 Annual Report.

Dear Sir:

There are enclosed extracts from the Board's Annual Report for 1919 covering those portions of exhibits "M" and "N"("Personnel and Salaries" and "Officers and Directors of the Federal Reserve Banks", respectively) which relate to your Bank. It is requested that you add to these tables data for the year 1920, up to and including December 31 and forward the revised tables to the Board at your earliest convenience. Any changes affecting these reports which may occur at your Bank after the reports have been forwarded should be sent to the Board promptly so that the necessary changes may be made in the proof.

In submitting the names of officers and directors it should be understood that the names of directors should include those of the newly elected directors for the ensuing year.

In connection with exhibit "M" (Personnel and Salaries) the figures should cover the annual salaries paid exclusive of any extra compensation. In this exhibit under the caption "Other Officers" you are requested to list the following officers:

Assistant to Governor;
Assistant Deputy Governor;
Auditor.

The Assistant Federal Reserve Agent, being an officer of the Federal Reserve Agent's Department, should be listed in that Department, and not shown among "Other Officers".

Among the departments there should be a separate heading, "Auditing Department", inasmuch as that department is independent from other departments of the Bank.

Enclosure.

Very truly yours,

Assistant to Governor.

To Chairmen of all F.R. Banks.

FEDERAL RESERVE BOARD

WASHINGTON

December 2,1920.

X-2074

Subject Board's reply to letter of criticism
from Senator R.L. Owen.

Dear Sir:

There is enclosed for your information a copy of the Board's reply to a letter from Hon. R.L. Owen, United States Senator, in which the Senator critises certain policies of the Federal Reserve System.

Senator Owen's letter to the Board has been published in the local afternoon papers today, and the Board has given a copy of its letter to the Associated Press. You are at liberty to furnish copies of the Board's letter to anyone interested.

Very truly yours,

Enclosure.

Assistant Secretary.

To Governors and Chairmen of F.R. Banks.

COPY

November 29,1920.
X-2074 a

My dear Senator:

Your letter of the 18th instant was received several days ago and has been given consideration by the Federal Reserve Board.

You urge (1) that the rates of discount established by the Federal reserve banks upon the approval and determination of the Federal Reserve Board be lowered, and (2) that the loans of the Federal reserve banks be expanded "to the extent which may be required for purposes of legitimate production and distribution".

The Federal Reserve Board is reluctant to discuss proposed changes in discount rates, and has consistently cautioned all Federal reserve banks to refrain from any announcement of recommendations made by their directors until the rates have been approved and made effective by the Federal Reserve Board. Premature discussion of discount rates would have an unsettling effect and would give those best in position to form an opinion as to the probable action of the Board an advantage over those not thus situated.

While the reserves of the Federal reserve banks as a system are stronger than they were several weeks ago, there is still a large amount of inter-bank rediscounting being done, and several of the Federal reserve banks would today have reserves much below the normal minimum required by law - some less than one-half - but for the fact that under the authority of paragraph (b) of Section 11 of the Federal Reserve Act they are permitted by the Federal Reserve Board to rediscount some of their discounted paper with other Federal reserve banks.

You have on several occasions expressed your approval of the management and policies of the Bank of England, and the Board regrets that up to this time it has been impossible to adopt in this country the well-established policy of the Bank of England under which the Bank's discount rate is fixed at a figure slightly in excess of the current market rate. The wisdom of such a policy is apparent, for as it eliminates all profit in rediscount transactions, it gives the Bank better control over its own reserves and causes the joint stock banks to rely to a greater degree upon their own resources in extending accommodations while still affording them an outlet for any undue accummulation of loans. The exigencies of war financing in this country were such as to make necessary the adoption of a policy just the reverse of the time-honored policy of the Bank of England, and while the margin between

Federal reserve bank rates and current market rates is not now as wide as was the case a year ago, the average legal and current rate throughout the country is still higher than the Federal reserve bank rate. It is the expectation of the Board, however, that conditions will ultimately adjust themselves so that Federal reserve bank rates may be maintained at a level slightly higher than current rates without any disturbance to commerce and business. In fact this adjustment has already begun in some districts where member banks have reduced their rates on commercial loans. While members of the Board always keep in mind the matter of discount rates and discuss the subject freely among themselves, they realize that in the determination of Federal reserve bank discount rates recognition must be given to going rates and in the rate revisions which the Board has approved from time to time the view has always been taken that discount rates cannot be pegged or fixed arbitrarily for there are always certain basic conditions affecting the demand for and the supply of credit throughout this country and throughout the world which must be taken into account, and the formal establishment of a Federal reserve bank discount rate is merely an interpretation of these conditions. The whole question of discount rates was discussed at length in my two letters to you of May 3rd and 24th, 1920.

As to the expansion of loans of the Federal reserve banks "to the extent which may be required for purposes of legitimate production and distribution", your attention is called to the fact that at the close of business Friday, November 26, 1920, the invested assets of the twelve Federal reserve banks, including bankers' acceptances discounted and bought, member banks' fifteen-day collateral notes secured by Government obligations, and eligible commercial paper discounted for member banks, amounted to $3,303,747,000 as compared with $3,024,741,000 on Friday, November 28, 1919. Federal reserve notes outstanding on November 26, 1920 amounted to $3,325,629,000 as against $2,852,277,000 on November 28,1919. These figures prove that during the past twelve months there has been no curtailment or reduction in the aggregate of the credits extended by or through the Federal reserve banks, but on the contrary there has been a very substantial increase which has been steady and continuous all through the year, as is shown graphically by the chart to which I called your attention when you were in my office a few days ago.

As you know, the Federal reserve banks are not permitted by law to have direct dealings with the public; they are allowed merely to rediscount for member banks, upon their endorsement, eligible paper as defined by the Act, representing loans or advancements made by the member banks to their customers, The discount powers of national banks are broadly defined in those sections of the Revised Statutes of the United States commonly known as "The National Bank Act", and those of the state banks and trust companies which are members of the Federal reserve system are governed by the laws of the respective states in which these institutions are located. Thus the Federal Reserve Board has no control over the discount policies of individual member banks and cannot force them to make loans which they do not desire to make, nor can it restrain them from making loans which in the lawful exercise of their discretion they may make.

The extent to which the discount facilities afforded by the Federal reserve banks are now being used shows that through the medium of member banks the Federal reserve banks are participating actively in extending credits. On August 22, 1907, just before the panic of that year, bills payable and rediscounts of all national banks amounted to $59,177,000 against total loans and discounts of $4,709,027,000, the percentage of bills payable and rediscounts to total loans being 1.26%. On September 23, 1908, the percentage was 1.11%: on September 12, 1914, total bills payable and rediscounts had increased to the then unprecedented amount of $150,071,000, or 2.34% of the total loans, which amounted to $6,417,910,000. This increase was due to the disturbance incident to the outbreak of the European war. On September 12, 1916, bills payable and rediscounts had fallen to $91,393,000, or 1.16% of the total of loans of all national banks. On September 11, 1917, the first year of our participation in the war, bills payable and rediscounts amounted to $285,104,000, or 3.09% of the total loans, $9,234,289,000. These figures, of course, reflect war financing. The same observation will apply to figures compiled from reports of condition of national banks on August 31, 1918, and September 12, 1919, when the percentages of rediscounts to total loans were 12.8% and 13.04% respectively. There has, however, been no new financing by the Government since the flotation of the Victory Loan; the total volume of Government obligations outstanding has decreased since September 12, 1919, when rediscounts and bills payable of all national banks amounted to $1,505,516,000, while on September 8, 1920, the national banks' liability for money borrowed in this way amounted to $2,299,640,000, or 16.8% of their total loans of $13,723,611,000. The figures for state banks and trust companies are not available, but there is no reason to believe that the proportion of money borrowed by these institutions to their loans and discounts is any less than that shown by the national banks. The foregoing figures demonstrate clearly that the present discount rates at the Federal reserve banks are by no means prohibitive and the Board does not believe that if Federal reserve bank discount rates should be lowered in advance of a decline in the general level of interest rates there would be any appreciable reduction in the rates member banks would charge their customers.

You refer in your letter to the fact that "the Federal Reserve Board is approving a 6% rate on loans secured by Treasury Certificates of indebtedness". As you know, the rate of interest borne by these obligations is determined by the Secretary of the Treasury. Recent issues of Treasury certificates have borne interest at from $5\frac{3}{4}$% to 6% per annum according to the length of time they have to run. It is the Board's understanding that it is the policy of the present Secretary of the Treasury to offer certificates at rates sufficiently high as to make them attractive to investors, large and small, thus effecting their distribution to the public instead of having them congested in the portfolios of the banks or passed along by them to the Federal reserve banks. The Federal Reserve Board has approved for notes secured by Treasury certificates of indebtedness rates corresponding with the rates of interest borne by the certificates, thus giving member banks an opportunity of carrying them without loss pending their distribution but offering the banks no inducement in the way of a spread in the rate to retain them as an investment instead of passing them on to the public. In this way the banks of the country and the Federal reserve banks are better able to respond to the requirements of agriculture, commerce and industry than would be the case if a larger portion of their assets were invested in Government obligations.

You state that "it seems to be the policy of the Board to raise the rates of interest for the purpose of broadly deflating credits". The rates were raised not for the purpose of a broad curtailment or deflation of credits, but with the object of bringing about more moderation in the use of credits, which a year ago were being diverted into all kinds of speculative and non-essential channels, and for the additional purpose of conserving the resources and credit power of the member banks and of the Federal reserve banks in order that they might better respond to the seasonal needs which arise every autumn.

The chart to which reference has been made shows that on September 19, 1919, the total earning assets of all Federal reserve banks were in round amounts $2,350,000,000, while on January 27, 1920, the total was nearly $3,300,000,000, an increase of almost $1,000,000,000, or nearly 50% within a period of four months. The chart shows graphically that the angle of ascending credit during this time was 45 degrees. Certainly no banking system which permitted so rapid an expansion of credit could long sustain itself, and while no deflation was attempted, measures were taken to regulate the credit expansion. Consequently the Board approved a sharp advance in discount rates for all of the Federal reserve banks between January 23 and January 30th. This advance brought about a moderate amount of liquidation, and the chart shows that by March 26th, the earning assets of the Federal reserve banks had declined to $3,200,000.000. About the middle of May, however, the tendency towards further expansion again became marked and the earning assets of the Federal reserve banks approached the previous level of $3,300,000,000. On the 18th of May the Board held a conference with members of the Federal Advisory Council and the Class "A" directors of the Federal reserve banks, at which it pointed out that in view of the essential credit requirements which the banks had ahead of them later on in the year, it was necessary to check the rate of expansion. Following the conference the banks of the country were urged to use more discriminating judgment in the matter of extending credit and to give preference in their loaning operations to essential credits, being advised at the same time that they themselves must be the judges of the essential character of the purposes for which loans were asked of them. It is interesting to note that a somewhat similar policy of credit rationing has been urged by the French Government upon French banks, and that the British banks under the leadership of the Bank of England have for many months past been exercising a discriminating judgment in granting credit accommodations. At the beginning of the present year, upon the previous recommendation of the Royal Commission on Currency and Exchanges, and at the instance of the Chancellor of the Exchequer, a limit was fixed on the maximum amount of currency notes which might be issued during the year 1920, not to exceed the maximum amount outstanding during the year 1919.

Following the conference on May 18th the earning assets of the Federal reserve banks gradually declined until July 23rd, when they were around $3,150,000,000. Since that date they have advanced steadily with occasional slight recessions until November 26th when the total amount reached $3,303,747,000. The chart shows that while the angle of credit from September 19, 1919, to January 27, 1920, was about 45 degrees upward, the angle from January 27, 1920, to November 26, 1920, shows an upward slant of only about 2 degrees.

In your letter you state that the Federal Reserve Board has been pursuing for a year a policy of high interest charges which has "brought on a condition of industrial depression resulting in checking, and in some cases absolutely stopping, legitimate production and legitimate distribution". You seem to lose sight of the fact that the production of great agricultural staples this year has been unusually large and that the price recessions of which you complain are due in part to world-wide conditions: and you also ignore the economic forces governing the movement in prices which for months past have been in evidence all over the world. It was generally recognized many months ago, following the collapse of the silk market in Japan early last spring, that certain price readjustments were inevitable. In fact, as early as August 1919 the continuous expansion of credit and the constantly advancing costs of living became objects of grave public concern, and the Senate addressed a communication on the subject to the Federal Reserve Board on August 5, 1919. Shortly afterward the President in an address to Congress called attention to the dangers of the situation. From that time until the adjournment of Congress last June these matters were the subject of frequent discussions in both Houses. In the United States an important factor has been the revulsion of sentiment against the unnatural levels attained by prices in the year 1919, when circumstances over which the Federal Reserve Board had no control, prevented the Federal reserve system from exercising its important function of regulating the flow and volume of credit.

On the 17th of May last the Senate adopted a resolution (No. 363) directing the Federal Reserve Board "to advise the Senate what steps it purposes to take or to recommend to the member banks of the Federal Reserve System to meet the existing inflation of currency and credits and consequent high prices, and what further steps it purposes to take or recommend to mobilize credits in order to move the 1920 crop".

There were large importations of wool brought into the United States just at the time when our domestic wool clip was coming into the market, which resulted in a slump in the price of wool, and in the utter demoralization of the wool market. Sugar was advanced by speculative manipulation until it reached a price which checked domestic consumption and virtually stopped exports to Europe while stimulating imports into the United States from practically all sugar producing countries in the world. Then followed a drastic decline in the price of sugar. Imports of rubber and coffee increased in like manner until the accumulated stocks became so great that the markets collapsed. The domestic production of other great staples - cotton, corn, wheat, rice and tobacco - proved to be greater and the demand for them less than had been expected, and the prices of of these commodities have declined sharply. Meanwhile there has been, ever since the Board undertook to hold the tide of expansion in check a year ago, a persistent campaign of misrepresentation of the Board's policies with frequent misstatements or studied avoidance of basic facts and figures. Not only have exaggerated ideas of the powers of the Board been disseminated, but some of the Board's critics have published statements repeatedly to the effect that its policies were ruinous, that it was determined to bring about drastic deflation, and that the inevitable result would be widespread disaster. It speaks well for the common sense of the country that the public has refused to be stampeded, although perhaps the critics may have succeeded in some cases in making conditions appear worse than they really are.

The Board believes that the unfavorable conditions which are now the subject of so much complaint were inevitable and could not in any event have been long deferred. It confidently asserts that but for the precautionary measures taken several months ago conditions today would be far worse than they are with the prospects of stabilization and revival much more remote. The Board agrees with you, however, that in some sections there has been a very substantial curtailment of credits during the past twelve months, particularly in those credits which are related to non-productive activities. This curtailment is particularly in evidence in the City of New York, as pointed out by you in your letter when you say "incidentally, the individual deposits of New York City banks which were November 12, 1919, $6,313,998,000 were reduced on November 10, 1920 to $4,916,375,000, a net loss of deposits in New York City of about $1,400,000,000 and a net reduction of loans amounting to a similar amount". There has not however been a similar curtailment in the country at large, for as you say in your letter "but while the individual deposits and loans of New York City banks were coming down, the total deposits of all the banks of the country, including bank deposits, increased according to the Comptroller's letter of October 13, 1920, $4,045,164,000, and loans increased $5,805,736,000 (including overdrafts and discounts) for the fiscal year ending June 30th, 1920, so that this disparity of reduced deposits and loans in New York City is all the more conspicuous". You say further that "the New York City banks have above all others pursued the policy of indiscriminate deflation, and have deflated their own deposits accordingly. The balance of the country's banks, therefore, increased their deposits, exclusive of New York, about $5,000,000,000".

The Board has no information showing that the banks of New York City have pursued a "policy of indiscriminate deflation", for although there has been a substantial reduction in the volume of Street loans, secured by stock exchange collateral, the facts are that the falling off in the deposits of New York City banks has been caused principally by withdrawals by interior correspondents, and not only have banks in other sections of the country checked heavily upon their existing balances in New York City but they have increased considerably their discount lines with their correspondent banks in that city.

You state "the price of Government bonds has been seriously depressed because the American market of stocks and bonds is located in New York City, where this policy of deflation is peculiarly in evidence". In my previous correspondence with you I pointed out that the decline in the market value of Government bonds was no reflection upon their intrinsic worth, for it reflected merely temporary conditions in the money market. Government bonds are investment securities payable at a fixed time in the future and bearing a rate of interest lower than that borne by other high-grade securities available for purchase by the public. With the exception of the First Liberty Loan which bears interest at the rate of only 3½%, the Government war obligations have very limited tax exemptions. The investor can choose between Government bonds bearing 4¼% interest with negligible tax exemptions, securities issued by private corporations bearing much higher rates of interest, and municipal bonds bearing interest at the rate of 5% or more which have full tax exemptions. Your attention was also called to the fact that the average price of Liberty Bonds in the market declined to about 94 at a time when Federal reserve banks were discounting at a 4% rate notes secured by Liberty Bonds carrying a rate of 4¼%.

In your letter of April 27th you attributed the decline in the market value of Liberty Bonds entirely to the advance in discount rates at the Federal reserve banks, giving no consideration to the possible effect of the withdrawal from the market of the War Finance Corporation as a daily purchaser. In my letter to you of May 3rd, I ventured the prediction that "the policy of the Federal Reserve Board to curb inflation will, in the long run, result in improving the market value of Liberty Bonds and a contrary policy of furnishing credit at cheap rates at a time like this would impair the market. The value of a promise to pay a sum certain at a future date is impaired by the inflation which the Board is trying to control." In my letter to you of May 24th, I stated "the obligations of the Government of the United States offer the best opportunity for investment in the world today. They are being sold now on a most attractive investment basis, and as speculative tendencies are curbed, as the gains of the profiteers are reduced, as commodity prices decline, and as the business and industry of this country settle down to a more normal peace basis, the market value of these securities will rise very rapidly." A comparison of market quotations last May with those of the past week will show that Liberty Bonds have advanced several points.

You still appear to be inclined to the opinion which you expressed in your letters to the Board last spring that Federal reserve bank discount rates should be related to the earnings of the Federal reserve banks. You say in your letter of November 18th that "the Federal reserve banks earned last year over one hundred per cent. and are earning now at a rate in excess of one hundred and fifty percent. per annum on its capital, contrary to a sound public policy. This excess profit is all the more reprehensible because it goes to the Treasury, is made by a Governmental instrumentality and puts the Government in the position of profiteering, and setting a national bad example." I endeavored to point out in my letter of May 24th that the earnings of the Federal reserve banks were the result of their large volume of invested assets, as much as the rate of interest obtained from these investments, which include rediscounts for member banks. The earnings of the Federal reserve banks depend as much upon the volume of loans and investments as upon the rate of discount. The present large volume of invested assets of all Federal reserve banks results in part from the demand for currency which in the form of Federal reserve notes has been furnished by the Government through the Federal reserve banks. The volume of these notes now in circulation is about $3,300,000,000. A direct interest charge of 2% on these notes against the Federal reserve banks, which the Board is authorized by law to impose, would bring a return to the Government of $66,000,000, an amount approximately as great as that which all the Federal reserve banks are expected in January to pay to the Government as a franchise tax out of their excess earnings. Had such an interest charge been imposed this year the earnings of the Federal reserve banks on their capital would not have been regarded as abnormal.

The case, however, may be stated in another way, and it is well that it should be, in view of your repeated charge of "profiteering". In an ordinary banking corporation the sole contribution by the stockholders is the paid-in capital stock plus accumulated and undistributed earnings; the deposits, which are the principal basis of the bank's earning power, come from the public. In such cases the earnings are measured in terms of percentages of the bank's capital, or its capital and surplus. The Federal reserve banks on January 1, 1921 will have an earned and accumulated surplus equal to about 200% of their paid-in capital. They also hold the reserves of their stockholding banks, which are deposits without interest contributed not by the public but by the stockholding banks, and these reserve deposits during the past year have averaged about $1,800,000,000. If, therefore, the percentage of earnings of the Federal reserve banks should be expressed in terms related not to the capital stock alone but to the total contributions of their stockholders, that is, capital plus reserve balances, without taking into account the surplus which in the last analysis is the property of the Government, the net earnings of the Federal reserve banks for the present year will be, not 150% or more, but barely 7% on their liability to stockholders.

The Board does not deem it necessary to enter into a discussion of your analysis of the position of the Bank of England. Our financial situation is distinctly different from that of England, our laws and banking practices are not the same, and it is difficult to make a comparison of the atatement of the twelve Federal reserve banks combined with the statement of the Bank of Englnad. You say "England is not on a gold basis". It is certain, however, that America is. Restrictions upon the export of gold from this country were removed by the President in June, 1919, and since that time we have maintained an absolutely free gold market, thereby enhancing greatly American prestige everywhere and establishing a credit throughout the world never before enjoyed. Our free gold market is one of the chief influences which causes such a world-wide premium on dollars, which incidentally gives us a command of the world market for gold. You point out in your letter that on a recent date "gold was at a premium of forty-five per cent. in London while selling at par in New York. This explains why the paper pound Sterling in New York is selling on the Exchange around $3.35 per pound". Would it not, however, be more accurate to state the case the other way around and to say that because the paper pound sterling is at a discount and because the paper currency of other countries is at a discount, gold is selling at a premium in England and in other countries, while selling at par in New York where American paper currency has a value equal to that of gold?

The Board regrets to learn that in your opinion public confidence in the wisdom of the Federal Reserve Board and the Federal reserve bank management is being impaired, but hopes that even through your views and those of the Board as to the proper policy to be pursued in the present circumstances may not coincide in all respects you may later on reach the conclusion in the light of subsequent events that the Board's policies are sound. It is impossible to forecast the future accurately, but the recent past is an open book and we should always strive to profit by experience. You may remember that about eighteen months ago you believed it possible to stabilize the principal foreign exchanges and to maintain them at a parity with each other and with the American dollar, and if I remember correctly you urged the Board as a matter of public duty to undertake this stabilization. In view of the reference made in your letter to the embarrassment that export houses are experiencing, the inference may be drawn that you do not now regard the problems connected with our foreign trade as being as simple as you once did and that you realize how impossible it would have been for the Board to maintain foreign exchanges at their normal parity and what grave disasters would have fallen upon the Federal reserve system and the country had the Board attempted to carry out your suggestion.

Respectfully yours,

W. P. G. HARDING

Governor.

Hon. Robert L. Owen,
United States Senate.

FEDERAL RESERVE BOARD

WASHINGTON

X-2075

December 2, 1920.

SUBJECT: Equipment for Printing Federal Reserve Notes.

Dear Sir:

Referring to the Board's letter of November 19, 1920, St. 1576, subject "Equipment for Printing Federal Reserve Notes", the Federal Reserve Board has approved the application of the Federal Reserve Bank of New York to charge the amount of its "Additional Assessment for New Equipment" to current expenses on December 31, 1920, instead of charging this amount to an asset account on the Bank's books to be amortized to current expenses as charges are made covering the cost of printing new Federal Reserve notes.

In case your Bank desires to handle your assessment in the manner as approved for New York, instead of in the manner specified in the Board's letter referred to above, it will be in order for your Bank to make application to the Board.

Very truly yours,

Assistant to Governor.

CHAIRMEN OF ALL FEDERAL RESERVE BANKS, EXCEPT NEW YORK.

FEDERAL RESERVE BANK OF NEW YORK. X-2076

December 1, 1920.

OFFICE CORRESPONDENCE

To Mr. Jay
From E. R. Kenzel

SUBJECT: Australia and New Zealand as countries whose customs of trade require facility for creating dollar exchange.

Referring to Governor Harding's letter of November 30 and the letter of the National Bank of Commerce, New York, dated November 29, attached thereto, in connection with this subject:

I have given careful consideration over a long period as to the desirability of permitting Australasian banks to draw dollar bills on American banks and bankers for the purpose of creating dollar exchange. I am convinced that it would be desirable and that the customs of trade and the financial and trade conditions there at the present time fully justify it, for the following reasons, among others:

Australia and New Zealand are almost exclusively agricultural countries, which depend on their exports of agricultural products as means of payment for their necessary imports. As in all agricultural countries the export movement is seasonal and when outward exchange is not making, they must have financing over the season until exports will resume. This they have heretofore had exclusively through London and the British interests which control all of the Australian banks have created a monoply for sterling in the overseas business with Australasia. Practically all of the business done by the Australasian banks, they being British owned, is done for account of London. Penetration of American banking into Australasia has heretofore been impracticable because of the close monoply maintained by the interested banks. This has resulted in a handicap against American commercial relations with Australasia and has practically, although not specifically required, both with regard to imports and exports between this country and Australasia, that the business should be done in sterling and transacted through British banks, which has imposed rather a burden upon our trade with these countries.

At the present time, however, there is an opportunity for the penetration of dollar credits into Australasian markets, and the establishment of dollar exchange in those markets, at least one way. This condition arises from the fact that the stringency of credit in London prevents the establishment of credits there against which Australasian banks might draw in anticipation of their wheat and wool bills which will begin to be making in January and February. This view has been recently confirmed to me by bankers here, including foreign bankers who are closely in touch with the situation and have recently conferred also with Australian bankers who are visiting here. I believe that Australasian banks would welcome the opportunity to draw dollars on this country and that their ability to do so would be the entering wedge to the development of the trade custom of selling our exports to Australasia in dollars, which would relieve our exporters of all hazard of exchange in their traffic. There is no doubt that I have heard expressed anywhere as to the absolute integrity of the Australian banks and their ability to meet any obligations which they would assume and which would be granted to them in this country, and their trade position is, I believe, absolutely sound.

A further great advantage to our American commerce of the granting of this facility, and particularly at this time, would be the relief to our exporters who have large amounts due them for goods already shipped, upon which collections can not be made. Also, the export trade to these countries, solely on this account, has come practically to a standstill. There is an excellent demand for American manufactures from customers there who are well able to pay for the goods, but lacking exchange facilities, are unable to do so.

I have heard no objection raised in any quarter, even among the foreign bankers represented here, against the granting of this facility in respect of Australasia, and I can conceive of no reason why it should not be done.

FEDERAL RESERVE BOARD

WASHINGTON

December 3,1920.
X-2077

Subject. Letter from Senator R.L. Owen, criticising
certain policies of the Federal Reserve System.

Dear Sir:

In order that you may better understand the basis upon which my letter to Senator Owen, copy of which was forwarded to you yesterday, was written, I am enclosing herewith for your files a copy of the Senator's letter to me, dated November 18th, the substance of which appeared in yesterday afternoon's papers.

Very truly yours,

Enclosure.

Governor.

To Chairmen and Governors of all F.R. Banks.

X-2077 a

UNITED STATES SENATE
Washington

COPY

November 18, 1920.

Honorable W.P.G. Harding,
Federal Reserve Board,
Washington, D.C.

My dear Governor:

I wish to again appeal to you and to the Federal Reserve Board to lower the rates of interest charged by the Federal Reserve Banks, and expand the loans of the Federal Reserve Banks to the extent which may be required for purposes of legitimate production and distribution.

American banks are justified in charging six and seven per cent, because they pay two and three per cent for deposits, and they are entitled to make a profit of two and three per cent above their overhead charges on the deposits which they handle as merchants of credit.

Three per cent profit on the total loans of all the banks of the United States, which amounted on June 30th, 1920, to $30,891,693,000.00 would make $926,000,000.00 profit on $5,953,983,000.00 of capital, surplus and undivided profits.

The Federal Reserve Banks earned last year over one hundred per cent and are earning now at a rate in excess of one hundred and fifty per cent per annum on its capital, contrary to a sound public policy. This excess profit is all the more reprehensible because it goes to the Treasury, is made by a Governmental instrumentality and puts the Government in the position of profiteering, and setting a national bad example.

The Federal Reserve Banks under these high interest rates are measurably destabilizing credits and promoting industrial depression under the arbitrary high interest rates which the Reserve Banks are charging.

If the Reserve Banks would be content with the same margin of profit in interest rates which the average bank of the country obtains, it would be charging a rate of between three and four per cent, because the Reserve Banks pay no interest on deposits, and a three or four per cent rate for the Reserve Banks would correspond with the interest a member bank would earn which charged six per cent.

Nevertheless, the Federal Reserve Board is approving a six per cent rate on loans secured by Treasury certificates of indebtedness, and a seven per cent rate on trade acceptances and on agriculture and live stock paper.

The Federal Reserve Board and the Federal Reserve Banks are setting a standard of interest that justifies the member banks and all other banks in raising the rates on all their loans and discounts, probably an average of three per cent which would amount to an additional tax on the productive and distributive processes of America to the extent of a billion dollars per annum.

Of course, this tax goes into the pockets of the stockholders of the banks, but it is at the expense of the whole country, and contrary to a sound public policy. As a stockholder of the banks, I am benefited. As a consumer, as a producer, as a citizen, I am injured. The country as a whole is injured by the industrial depression far beyond the billion of unearned profits.

I fully agree with the Board in its policy of advising restrictions of loans employed in stock speculations, in commodity speculations, in hoarding and in profiteering. This advice of the Board is wise. It can be only applied advantageously by the individual banks exercising an individual discrimination against loans for such purposes. Such credits when released, however, should be extended to those who are engaged in legitimate production and distribution.

It seems to be the policy of the Board to raise the rates of interest for the purpose of broadly deflating credits. It has been pursuing this policy for a year with the result of this policy of high interest charges being extended generally throughout the country, which has thus brought on a condition of industrial depression resulting in checking, and in some cases absolutely stopping, legitimate production and legitimate distribution. This is the evil of usury.

I heartily approve the checking of speculation, hoarding and profiteering, but I very vigorously disapprove and protest against the breaking down of legitimate production and distribution by this course. It is discrediting the Federal Reserve System, and if you will pardon me for saying so, I believe, it is impairing in the public mind the confidence of the wisdom of the Federal Reserve Board and the Federal Reserve bank management.

The error of the policy of indiscriminate deflation is largely due, in my opinion, to the lack of vision of the big New York City banks. Beginning a year ago, the men who control the policy of the big banks dealing in stock exchange loans, began to put the interest rates up from ten to thirty per cent, instead of requiring such loans to be gradually liquidated on some reasonable basis.

On these high interest charges they probably made $100,000,000.00 of profit. "Incidentally the individual deposits of New York City banks which were November 12, 1919, $6,313,998,000.00 were reduced on November 10, 1920, to $4,916,375,000.00, a net loss of deposits in New York City of about $1,400,000,000.00, and a net reduction of loans amounting to a similar amount.

Is it any wonder that New York City is complaining of the credit situation?

But while the individual deposits and loans of New York City banks were coming down, the total deposits of all the banks of the country, including bank deposits, increased according to the Comptroller's letter of October 13, 1920, $4,045,164,000.00, and loans increased $5,805,736,000.00 (including overdrafts and discounts) for the fiscal year ending June 30, 1920, so that this disparity of reduced deposits and loans in New York City is all the more conspicuous.

The New York City banks have above all others pursued the policy of indiscriminate deflation, and have deflated their own deposits accordingly. The balance of the country's banks therefore, increased their deposits exclusive of New York about $5,000,000,000.00.

The total resources of the banks of the United States increased $4,045,164,000.00 for the fiscal year ending June 30,1920, reaching the gigantic total of $53,079,108,000.00.

The balance of the country has shown its normal increase in spite of the high rates. New York City under the control of those favoring the policy of deflation shows a great loss in deposits and in loans. The stock market has been broken. The price of Government bonds has been seriously depressed because the American market of stocks and bonds is located in New York City, where this policy of deflation is peculiarly in evidence.

Incidentally, many of the export houses in New York City are going into bankruptcy. Many of the great commodities like leather, wool, silk, rubber, oats, corn, etc., are already down below the cost of production.

The deposits of the nation June 30, 1920, were over forty-one billion dollars, and the deposits of New York City were less than one-eighth of the other banks' deposits of the country, but New York is the financial heart of the country, and powerfully affects the whole nation.

My dear Governor, I am protesting to the Reserve Board against the policy of indiscriminate deflation, and am praying the Board to reconsider its attitude, and to withdraw from supporting the policy of indiscriminate deflation by high interest rates, and by refusal of credits to legitimate industry, which the Reserve banks can well afford to make to whatever extent actually required by the country.

I have been distressed by the propaganda being carried on to impress the country with the idea that the Federal Reserve Banks were in a condition of instability.

A day or two since, Mr. M. L. Requa, 120 Broadway, sent me a letter inclosing a Roger Babson circular, stating that many of Babson's clients have asked --

> "Why the Federal Reserve Banks should be alarmed over a ratio of forty per cent when England is getting along on a ratio of about fifteen per cent."

This circular then stated in large black face type --

"The truth is that the United States reserves are quite as low as those of England. The seeming difference is only the methods by which they are calculated."

In the first place the Federal Reserve Banks are not alarmed, and have not the slightest reason in the world to be alarmed.

It is true that the Bank of England is getting along very well with a ratio of currency against deposits of less than fifteen per cent (ten per cent August 4, 1920,), and nobody in England is at all alarmed about the Bank of England, and have no need to be. The British Government is behind the Bank of England in fact, if not in law.

But the statement that the United States reserves are quite as low as those of England is entirely and utterly untrue.

The statement of the Bank of England which Babson quotes shows 136,000,000,000 pounds of deposits with little over 13,000,000 pounds of Bank of England notes (now irredeemable), and less than 2,000,000 pounds in gold. The cash reserves, therefore, of the Banking Department of the Bank of England against its deposits was only a little over ten per cent, but there was no reason why the depositors should have any fear whatever, and they had none.

But against the deposits of the Federal Reserve Banks are reserves of 35 per cent in gold (over $600,000,000) and over 65 per cent first class securities, when as a matter of fact, the deposits in the Reserve Banks cannot be withdrawn under the statute, and no reserve of any kind is really necessary for the mere purpose of protecting such fixed deposits.

Reserves Against Note Issues.

The currency of Great Britain consists of British treasury one pound notes and ten shilling notes and certificates, ordinarily known as the "Bradbury notes", because issued under John Bradbury's administration.

These notes amount to 352,796,058 pounds sterling, secured by 28,500,000 pounds in gold, (equal to 8 per cent of gold) in the treasury, and 18,750,000 pounds sterling in Bank of England notes (equal to 5.3 per cent), a total cover of 13.3 per cent against these treasury notes which correspond closely with the treasury notes issued by the United States Treasury to the Federal Reserve banks, and called "Federal Reserve notes."

But the Bradbury notes (now irredeemable) have a gold cover only of 13.3 per cent (counting the Bank of England notes as gold), while the Federal Reserve notes amounting on November 12, 1920, to $3,328,985,000.00 had an actual gold cover of $2,180,000,000.00 (equal to 65 per cent), besides an excess of thirty-five per cent of other first class securities behind these Federal Reserve notes amounting to good security of over one hundred per cent.

The Bradbury notes are good if the British Government is solvent, as everybody believes it is, but the Bradbury notes have only 13 per cent gold cover, while the Federal Reserve notes have 65 per cent of gold cover, and are otherwise secured by sound securities, making a total security exceeding one hundred per cent, and in addition has the full taxing power of the United States behind them.

The Bank of England has outstanding 139,920,000 pounds sterling in Bank of England notes secured by 121,420,010 pounds of gold held in trust by the Issue Department of the Bank of England for the benefit of the noteholders, together with 18,500,000 pounds of Government debt, and other securities so that the Bank of England notes, though not underwritten by the British Government, are secured up to one hundred per cent. However, under the need for the economical use of gold, public opinion and the Government of Great Britain sustains the Bank of England in refusing to redeem its notes in gold just as the Bradbury notes are not redeemed in gold. England is not on a gold basis. Last Saturday gold was selling in London per ounce at 121 shillings and 11 pence (par value 85 shillings per ounce). In other words, gold was at a premium of forty-five per cent in London, while selling at par in New York. This explains why the paper pound sterling in New York is selling on the Exchange around $3.35 per pound.

The currency of the United States is on a gold basis, and the Federal Reserve notes are being daily redeemed in gold by law.

Babson's statement --

> "That the United States reserves are quite as low as those of England. The seeming difference is only in the methods by which they are calculated."

is quite unpardonable coming from a respectable publication.

The Editor was unaware apparently of the existence of the Bradbury notes amounting to $1,750,000,000.00. In the next place, in theory, he takes the trust gold held by the Issue Department of the Bank of England and adds it to the gold in the banking department, and then adds together the outstanding notes of the Bank of England and the deposits of the Bank of England, and establishes a ratio between the sums thus obtained (omitting the Bradbury notes).

There is no justification in law or in morals to thus assume to use the trust gold held by the Issue Department of the Bank of England. This gold is held in trust for the noteholders of the Bank of England, and cannot be used for any other purpose. Nobody in Great Britain ever dreamed of using this trust gold to pay depositors with. It would be unlawful and a felony to do so.

The treasury notes of the British Government issued for currency have behind them thirteen per cent of gold, and are not redeemable in gold.

The Bank of England notes are not redeemable in gold, as a matter of fact.

The deposits of the Bank of England have a cash reserve running from ten to fourteen per cent in Bank of England notes, including about one per cent of actual gold. The Bank of England can command gold nevertheless, and is not alarmed.

The deposits and acceptances of the twelve joint banks of Great Britain in their last report (these banks do the great commercial business of the British Isles) amounted to 1,955,200,000 pounds, against which they had 300,000,000 pounds in so-called cash, the cash consisting of Bradbury notes secured by thirteen per cent gold, and their deposits with the bank of England secured by a like percentage of Bank of England notes, so that if the actual gold reserves were estimated against their deposits and acceptances it would amount to less than five per cent gold, and this need cause, and does cause, no alarm. These banks are abundantly protected by public opinion and by the support of the British Government behind the Bradbury notes, and behind the Bank of England.

The truth is the English people are using gold very economically, and the United States is using gold very uneconomically.

The Federal Reserve Banks have in gold, including a small amount of legal tender, $2,180,000,000.00. The banks of the United States had in cash in their vaults $626,000,000.00 on June 30th, 1920. There is in the United States treasury over $300,000,000.00 of free gold and silver, and there is outstanding outside of the Federal Reserve Banks and outside of the Treasury $670,000,000.00 in gold and $414,000,000.00 of silver, making a total of over $3,000,000,000.00, or about $30.00 per capita, while the total amount of gold in the British Isles is about $800,000,000.00 or seventeen and a fraction dollars per capita. The world owes the United States $15,000,000,000 and we can command the gold of the world.

The Bank of England acting as the Reserve Agent of all the banks of Great Britain is safeguarding a world wide business, probably equal to that of the United States, with a cash supply on hand of only $75,000,000.00, consisting of the Bank of England notes (irredeemable at this time) and including less than $10,000,000.00 actual gold, while the Federal Reserve Banks serving a similar office for American banks have $2,180,000,000.00 of gold, so that the Reserve Banks have over twenty-five times as much gold as the Banking Department of the Bank of England.

To talk about the Reserve Banks being alarmed under the circumstances is stupid. To state that the reserves of the United States are quite as low as those of England does a serious injustice to the Federal Reserve Banks and Federal Reserve notes, whose reserves are many times stronger than the Reserves of the Banking Department of the Bank of England. If the Federal Reserve notes were issued up to the 13 per cent reserve of the Bradbury notes the $2,100,000,000.00 of gold would sustain Federal Reserve notes equal to $16,155,000,000.00, or an expansion of credit equal to over $12,000,000,000.00.

The Federal Reserve Act contemplated the reserves against the Federal notes going below forty per cent, and made provision for it by a moderate and small penalty. The Federal Reserve Board has refused to allow the reserves to go down when the very purpose of the reserve as contemplated by the Act is that it should be used when the national welfare requires it.

I respectfully pray the Board to now give consideration to the question of reducing the rate of interest and of extending the powers of the Federal Reserve Banks to the full accommodation of our legitimate commerce and industry in order that the gigantic strides of America along the road to prosperity may continue unimpaired.

Respectfully yours,

(Signed) ROBERT L. OWEN.

FEDERAL RESERVE BOARD

WASHINGTON

December 3, 1920.
X-2078

Subject: Code words to be used in
rediscount transactions.

Dear Sir:

There is submitted herewith a new list of code words and phrases to be used in rediscount transactions between Federal Reserve Banks, superseding the code words suggested in the Board's letters of July 10, 1919, X-1613; July 24, 1919, X-1628; and August 23, 1919, X-1657.

It is requested that the new code words be made effective as of December 15, 1920.

Very truly yours,

Enclosure.

Assistant to Governor.

To Chairmen of all F.R. Banks.

Copy to Governors.

CODE MESSAGES TO BE USED IN REDISCOUNT TRANSACTIONS BETWEEN FEDERAL RESERVE BANKS.

(a) To be sent by the bank wishing to rediscount to the Board:

CODE WORD:

CENTER . . . . Please arrange for this bank to rediscount (date) (amount-A.B.A. code) (kind of paper--see code words given below) maturing (11 to 15) days. Gold Settlement Fund direct transfer in payment.

(b) To be sent by the Board to the rediscounting bank:

TEMPER. . . . Board has requested (Chicago) to rediscount for your Bank (date) (amount-A.B.A.code) (kind of paper - see code words given below) maturing (11 to 15) days rate (7) per cent. Gold Settlement Fund direct transfer in payment. Please arrange details direct.

TEMPLE . . . . Board has requested (Chicago) to rediscount for your Bank today as of (date) (amount-A.B.A. code) (kind of paper-see code words given below) maturing (11 to 15) days, rate (7) per cent. Gold Settlement Fund direct transfer in payment this morning, with all entries as of (date). Please arrange details direct.

(c) To be sent by the Board to the discounting bank:

TANNER . . . . Board requests your Bank to discount for (Dallas) (date) (amount-A.B.A. code) (kind of paper-see code words given below) maturing (11 to 15) days, rate (7) per cent. Gold Settlement Fund direct transfer. Please arrange details direct.

TANGENT . . . . Board requests your Bank to discount for (Dallas) today as of (date) (amount-A.B.A. code) (kind of paper - see code words given below) maturing (11 to 15) days, rate (7) per cent. Gold Settlement Fund direct transfer in payment this morning, with all entries as of (date). Please arrange details direct.

(d) To be sent by the discounting bank to the rediscounting bank:

HAMMER . . . . In accordance with request of the Federal Reserve Board we shall be pleased to discount for your Bank (date) (amount-A.B.A. code) (kind of paper-see code words given below) maturing (11 to 15) days, rate (7) per cent. Please deposit paper with Federal Reserve Agent of your Bank for account Federal Reserve Agent of this Bank and have him wire our Agent acknowledging receipt of bills and collateral. Wire amount of unearned discount credited, also advise separately for each kind of paper total amount maturing within fifteen days, thirty days, sixty days, ninety days and over ninety days. Also please forward schedules. Gold Settlement Fund direct transfer will be made in payment.

HAMLET . . . .In accordance with request of the Federal Reserve Board we shall be pleased to discount for your Bank today as of (date) (amount-A.B.A. code) (kind of paper - see code words given below) maturing (11 to 15) days, rate (7) per cent. Please deposit paper with Federal Reserve Agent of your Bank for account Federal Reserve Agent of this Bank and have him wire our Agent acknowledging receipt of bills and collateral. Wire amount of unearned discount credited; also advise separately for each kind of paper total amount maturing within fifteen days, thirty days, sixty days, ninety days, and over ninety days. Also please forward schedules. Gold Settlement Fund direct transfer will be made this morning in payment, with all entries as of (date)

(e) To be sent by the Agent of the rediscounting bank to the Agent of the discounting bank:

PAMPER . . . .I have received from the Federal Reserve Bank of (Dallas), properly endorsed by it, (amount-A.B.A. code) (kind of paper-see code words given below)maturing (11 to 15) days, rate (7) per cent and am holding same in trust for you for account of Federal Reserve Bank of (Chicago) which Bank is discounting above paper as of (date) . Detail figures and schedules will follow.

(f) To be sent by discounting bank to Board:

HANGER . . . .In accordance with Board's request we will discount for (Dallas) as of (date) (amount-A.B.A. code) (kind of paper-see code words given below) maturing (11 to 15) days, rate (7) per cent. We are arranging details direct with (Dallas). Gold Settlement Fund direct transfer will be made today in payment, with all entries as of (date).

(g) To be sent by rediscounting bank to discounting bank:

REAPER . . . .In accordance with your wire (date) we have delivered to the Federal Reserve Agent of this Bank to be held in trust for the Federal Reserve Agent of your Bank for the account of your Bank (amount-A.B.A. code)(kind of paper-see code words given below) maturing (11 to 15) days. Please make direct transfer of (amount-A.B.A. code) (date) through Gold Settlement Fund in payment. We credit your account in Gold Fund clearing (date) (amount-A.B.A. code) discount at (7) per cent for (10) days on (amount-A.B.A. code) (kind of paper-see code words given below) and (amount-A.B.A. code) discount at (7) per cent for (10) days on (amount-A.B.A. code) (kind of paper-see code words given below); total credit for discount (amount-A.B.A. code). Schedule of bills pledged with our Agent will be mailed (date).

(h) To be sent by rediscounting bank to discounting bank in renewal transactions:

RECAST . . . .In accordance with your wire of (date) we have delivered to the Federal Reserve Agent of this Bank to be held in trust for the Federal Reserve Agent of your Bank for the account of your Bank (amount-A.B.A. code) (kind of paper-see code words given below) maturing (11 to 15) days. We have received from the Federal Reserve Agent of this Bank paper lodged with him (10) days ago in equivalent amount. We are paying you for today's maturities through the Gold Settlement Fund by direct transfer today and request that you make direct transfer to us of (amount-A.B.A. code) covering new transaction. We credit your account in Gold Fund clearing (date)(amount-A.B.A. code) discount at (7) per cent for (10) days on (amount-A.B.A. code) (kind of paper-see code words given below) and (amount-A.B.A. code) discount at (7) per cent for (10) days on (amount-A.B.A. code) (kind of paper-see code words given below); total credit for discount (amount-A.B.A. code). Schedule of bills pledged with our Agent being mailed.

(i) To be sent by rediscounting bank to discounting bank in making advance payments:

RESORT . . . . We are paying your Bank today by direct transfer through the Gold Settlement Fund on account of proceeds of advance payment for our rediscount with your bank due (date) as follows:

Rate (7) per cent

(Name) or (No) Amt. (A.B.A. Code) Disc. (amt. A.B.A.code) Proceeds (A.B.A.code)
(Name) or (No) Amt. (A.B.A. Code) Disc. (amt. A.B.A.code) Proceeds (A.B.A.code)

(j) Designations of kinds of paper:

CERTIFICATES . . . . member bank promissory notes secured by Treasury certificates of indebtedness.

LIBERTIES . . . . . member bank promissory notes secured by Liberty bonds.

VICTORIES . . . . . member bank promissory notes secured by Victory notes.

COMMERCIAL . . . . . commercial paper secured or unsecured.

STATEMENT FOR THE PRESS

For release in Sunday morning papers,
December 5,1920.

The following is a review of general business and financial conditions throughout the several Federal Reserve Districts during the month of November, as contained in the forthcoming issue of the Federal Reserve Bulletin.

The month of November has continued the period of readjustment in business. Prices have continued their decline, the Board's general index showing a net less for the month of 18 points. The activity of manufacturing in many lines has been still further reduced and there has been some increase in unemployment. There has been a corresponding reduction of buying power which is reflecting itself in a noticeable way in a lessening in the volume of trade, particularly in the volume of wholesale trade. While business failures have continued to increase as compared with a year ago, the total growth in assets of failed concerns has been moderate. Banks have been able to extend credit in reasonable volume, with the result that losses due to shrinkage of inventory values have been carried without producing an undue measure of commercial embarrassment. In the agricultural regions an outstanding feature of the month has been the retardation of the movement of products to market, which has resulted in a slowing down of collections and in a reduced liquidity of commercial paper. In some of the leading agricultural States bank failures have been reported. The general opinion of bankers and financiers is to the effect that the process of readjustment has been kept under control and has produced as little economic disturbance as might reasonably have been expected. It is impossible to estimate the extent to which the completion of the readjustment process may involve further slackening of employment or the increase of commercial embarrassment. Favorable elements in the immediate situation are the improvement in transportation conditions and the easing of credit conditions. Freight congestion is reported practically at an end and both staples and coal are moving steadily to market as shipped.

In District No. 1 (Boston) there is an "unmistakably widespread curtailment of production", but the money situation is reported satisfactory.

In District No. 2 (New York), while price declines and cancellation of orders have continued with "substantial interruptions and readjustments in many industries", the orderly manner in which these readjustments have proceeded "has been greatly facilitated by the existence of the present machinery for the maintenance of credit flexibility". The volume of credit demand is falling off.

In District No. 3 (Philadelphia) there has been "little change in the general condition of business" during the past month, but while factories have in many instances closed or reduced their time, "the retail trade is now making an encouraging beginning" in readjustment and "a ready response" to lower prices is manifested.

In District No. 4 (Cleveland) "the physical difficulties that have tended to interfere with production have largely disappeared" and the chief obstacle to progress is found in the failure to bring about a thorough readjustment of prices. Iron and steel demand has been "tapering off".

In District No. 5 (Richmond), despite reduction in prices and improvement in transportation, the month has shown "no pronounced developments."

In District No. 6 (Atlanta) agricultural conditions have continued favorable throughout the district despite some shrinkage in yield as compared with previous prospects. Coal production has increased and there has been a beginning toward the more systematic financing of the export trade.

In District No. 7 (Chicago) "indices of business conditions point to a considerable let-down in general activity." Uncertainty prevails in many lines, while failure to bring about greater uniformity in prices is an obstacle to recovery. There is a lowering of cost of production and a reduction in the volume of employment.

In District No. 8 (St.Louis) the tendency of business has been to slow down, with the readjustment movement gaining considerable momentum. The price recessions have given rise to some hesitation and uncertainty both on the part of merchants and the public. The yields of the leading agricultural products were large and "fall farm operations have progressed well."

In District No. 9 (Minneapolis) the grain movement has continued favorable and the physical volume of trade increased as compared with September, although less than a year ago. Prices have still further declined, but financial conditions continue stable.

In District No. 10 (Kansas City) the month has shown no "decided change in the tendency toward a general readjustment of business." Agricultural and other prices have fallen off there as elsewhere.

In District No. 11 (Dallas) the general movement was a continuance of that of the preceding month, with further shrinkage in wholesale trade but with improvement in retail trade and collections. The sowing of winter wheat has increased and the movement of cotton has become heavier.

In District No. 12 (San Francisco) agricultural prospects are favorable and the movement of products to market is proceeding normally. Retail trade is larger than last year or than during the preceding month. Some industries show curtailment, especially lumber and mining. General conditions in the district are still reasonably good.

Harvesting of this year's large crops is nearing completion in most sections. Favorable weather has aided materially in maturing and harvesting the crops. The rains which have been general have left the soil in good condition for seeding. In District No. 9 (Minneapolis) about 21 per cent of the corn is going into silage, while Montana is utilizing about 35 per cent of its acreage for forage and fodder and about 6 per cent for grazing. As frost did not appear until late, the corn is practically matured with very little damage. Some injury to corn is indicated in the unharvested lowland fields of Oklahoma, due to heavy rain. In all sections corn is of good quality. Seeding of winter wheat in District No. 8 (St. Louis) "is practically completed, and the early sown grain has made good growth and is in fine condition to enter the cold weather." On the Pacific Coast "timely rains during October and early November have facilitated extensive sowing of winter wheat and have replenished power and irrigation reservoirs."

While the production of tobacco this season is exceptionally heavy, there is more than usual of the low grades due to damage of different kinds. In Kentucky from 15 to 25 per cent of the Burley crop will be more or less affected, while in Tennessee the color is bad and the quality is rather low. It is generally reported that the farmers are dissatisfied with the price of tobacco, and this has manifested itself in a tendency toward slower marketing. The opening of the Burley tobacco markets, which usually occurs early in December, will probably be postponed until after the first of the year. Manufacturers of tobacco in District No. 5 (Richmond) report a slowing of demand from both domestic and foreign buyers. The weather generally has been favorable to the picking of fruits on the Pacific Coast, and the rains have helped to size up the fruit. Carload shipments of naval oranges are already moving out of northern California.

In District No. 11 (Dallas) the heavy rains in some sections have slowed up cotton picking and some damage has been done to the open cotton. "In many localities it is reported that picking operations will not be resumed until the open cotton goes through a period of sun bleaching to remove the effects of weather damage." In south Texas the harvesting of what is said to be the largest cotton crop on record in that section is nearing completion. Cotton picking is finished in Florida, and nearly so in Alabama, South Carolina, Mississippi, and Louisiana, but in upper Georgia the boll weevil has increased 50 per cent. In Oklahoma "the fields are still white with unpicked lint and less than half has been picked thus far." Opening of the bolls and picking have been retarded, but picking has been resumed with the supply of pickers still inadequate. Throughout the cotton section it is reported on the whole that there has been a heavily increased movement of cotton, but in District No. 5 (Richmond) a tendency has developed toward the forming of a crop-holding movement. The number of bales of cotton ginned prior to November 1, 1920, is considerably larger than for the corresponding period last year, the figures being 7,471,352 bales for 1920 and 6,305,054 bales for 1919.

Receipts of live stock continue much lighter than last year, and the downward trend of live-stock prices in general continues. Receipts of cattle and calves at 15 western markets during October were 1,628,564 head, corresponding to an index number of 162, as compared with 1,736,009 head during September, corresponding to an index number of 172, and 2,317,487 head during October, 1919, corresponding to an index number of 230. Receipts of hogs during October were 1,836,748 head, as compared with 1,597,622 head during September and 2,160,079 head during October, 1919, the respective index numbers being 84, 73 and 98. October receipts of sheep were slightly less than during September, being 1,865,330 head as compared with 1,893,312 head, and 2,405,511 head during October, 1919, the respective index numbers being 136, 139, and 176. In all markets of District No. 10 (Kansas City), "with the exception of a heavy run of feeder lambs from Utah and Nevada to Colorado and eastern feed lots, the receipts of live stock have been light." At Fort Worth, October receipts of sheep since 1910 have not been as small as they were this year. Heavy runs of live stock in District No. 9 (Minneapolis) are indicated from the West, and grass fed cattle predominated at all times. The quality of cattle received at South St. Paul is reported as the poorest for a number of years. From that district it is stated that "the demand for stock cars in the West has been very heavy, and serious complaint has been made of shortage in some places." All live-stock prices, except lamb and mutton, declined in that market in October and the declines continued into November. Downward price movements continued to feature the course of trade in District No. 11 (Dallas), although the market steadied toward the end of the month. While the limited supply of good corn fatted killers held prices to the highest levels of the year in District No. 10 (Kansas City), prices of all butcher grades were depressed during the early part of October, although subsequently rising, and the price of hogs reached the lowest figure of the year. Live stock in all sections is generally reported in excellent condition. In District No. 10 (Kansas City) "range and pasture conditions continue better than for some years past because of general rains." The abundant hay crop gives additional promise of winter and spring feeding, but up to the present time less stocks are reported as going to feed lots. In District No. 11 (Dallas) the ranges in Arizona, New Mexico, the Panhandle, and southwest Texas show a general trend toward improvement as a result of heavy rains, and the stock water supply has been replenished.

In point of volume the movement of grain to market has been practically the same as last year, although the total crop is larger this year. In California, however, the decreased acreage during the season just past has been considered as the cause of low receipts, together with the long threshing season due to heavy rains, and the receipts are below those of last year. A factor in the present situation has been the continued decreases in the prices of the various grains. Thus in Minneapolis, No 1 dark northern cash wheat was quoted on October 30 at $2.13¼ to $2.17¼ as compared with $2.35½ to $2.45¼ on September 30. In District No. 10 (Kansas City) the receipts of wheat during October, while slightly larger than last year, showed a 20 per cent decrease from the heavy marketings in September. While this is attributed largely to the drop in prices, it is recalled that the slump in wheat receipts between September and October in 1919 was about 40 per cent at the markets of these districts. In Minneapolis total receipts of all grains during October, amounting to 25,367,870 bushels, were 6 per cent larger than in September and about 17 per cent larger than in October 1919. Indications point to a speeding up of the movement in the case of wheat and flax. Wheat receipts during October were an increase of about 20 per cent over September, while receipts of flax more than doubled. "A year ago there was great difficulty in securing railroad equipment with which to move the grain. Complaints of difficulty in securing cars this year have been few and widely scattered". The following statement from District No. 10 (Kansas City) fairly characterizes the situation throughout the grain belt as a whole: "The reports seem to indicate that a larger proportion than usual of farmers are holding wheat for marketing in the winter and spring or for higher prices, though it is apparent that many farmers are inclined to let as much of their wheat go at prevailing prices as will enable them to meet their financial obligations."

Milling activity in District No. 10 (Kansas City) has decreased on account of the slow demand for flour. Mills in the district operated at 62 per cent of capacity during October, as against 86 per cent in October, 1919. Similarly, mills in District No. 9 (Minneapolis) are operating at about 50 per cent of capacity, as against about 75 per cent last year, although the output during the five weeks ending October 30 was 28 per cent larger than during the five weeks ending September 25. Flour movements were likewise greater in October than in September, although considerably less than during October, 1919. Combined shipments from Minneapolis and Duluth during October were 2,378,773 barrels, as compared with 1,834,189 barrels during September and 3,481,899 barrels during October, 1919. Fluctuations in wheat prices at Kansas City had a somewhat depressing effect on milling activity. Heavy purchasing of flour was absent, even though prices were weaker, but there was a slight improvement at the end of the month. Flour prices have generally followed the trend of the wheat market, hard wheat patents onNovember 6 being quoted at Kansas City at $10.50 to $10.70, as against $11.30 to $11.45 on October 2. Business in St. Louis is of a hand-to-mouth sort, particularly in the south. Mill operation in the district from the middle of October on ranged from 40 to 50 per cent of capacity.

"The dominant feature of the bituminous coal business" states the report from District No. 3 (Philadelphia), "is the fact that the situation has turned, with rather startling rapidity, from a problem of production and transportation to a question of markets." Prices are declining, the curtailment of industrial activity in some industries has cut down consumption, and the demand for export tonnage has fallen off considerably. Production in general has been well maintained throughout the country, amounting to 50,744,000 tons during October, as against 51,093,000 tons in September and 56,243,000 tons in October, 1919, the respective index numbers being 137, 138, and 152. In spite of the several holidays during November, production in general continues at a high level. The reports to the United States Geological Survey of loss of time on account of absence of market, however, indicated recently that "in general it may still be said that the market is sufficiently active to absorb all the coal offered for shipment," the only losses from this cause being west of the Mississippi. From Kansas City it is stated that while the demand for steam coal has softened to some extent since September, there has been no radical change in prices. In Alabama production has steadily increased in spite of the fact that the strike is still on in that field, and production is now only 25,000 tons under the usual output. The price of coke, both furnace and foundry, has fallen greatly. The market is characterized from District No. 3 (Philadelphia) as "sluggish," and production in District No. 4 (Cleveland) has fallen off somewhat. From District No. 6 (Atlanta), however, it is stated that prices "show but little change." Production of anthracite coal during October amounted to 7,645,000 tons, corresponding to an index number of 103, as compared with 5,125,000 tons during September and 8,459,000 tons during October, 1919. the respective index numbers being 69 and 114.

There was a much sharper decrease in output at the opening of November than in the case of bituminous coal. Production to date is 3,750,000 tons less than last year, although prior to the strike it was 200,000 tons ahead of the output for the corresponding period of the previous year. A noticeable return to the anthracite mines of men who had drifted into other industries is reported from District No. 3 (Philadelphia). Trade sources state that independent operators still obtain "fancy prices." With respect to the situation regarding fuel for domestic use, householders' bins in District No. 8 (St. Louis) are rapidly being filled, while in District No. 5 (Richmond) there appears to be plenty of coal available for houses, although public utilities are operating on narrow margins.

In District No. 10 (Kansas City) it is reported that uncertainty was felt during October concerning the prices of refined petroleum products. The demand for fuel oil from factories and steam plants is increasing, while the recent slump in the demand for kerosene is giving way under a stronger domestic demand for use in heating stoves. Gasoline is showing weakness because of large stocks laid in before the recent change in freight rates and a disposition on the part of certain refiners to make prices which will move gasoline, rather than to hold it in stock. The retail tank station business this year to date is reported as about 40 per cent larger than last year in the District. Apprehension is also reflected among operators and refiners over lack of interest in prospecting new fields, causing a lull in developments, although stocks are now increasing slightly. Production in Oklahoma and Kansas during October was 12,768,125 barrels, as compared with 12,023,250 barrels during September. Production in District No. 11 (Dallas) during October was 12,280,197 barrels, an increase of 790,687 barrels over the figure for September. "A marked improvement in drilling results was a noticeable feature in the District's oil industry". Wells completed during October in District No. 10 (Kansas City) numbered 1,060, with a daily production of 95,738 barrels, as compared with 1,048 wells in September, showing a daily production of 83,917 barrels.

In the face of falling prices and declining demand, production of iron and steel has been further curtailed. These tendencies have been noticeable, in particular in the case of the independent producers. Many companies have recently been operatiing at about 50 to 75 per cent of capacity, while some plants of special character, such as those producing material required by the automobile industry, are on an even lower basis. At the close of October 28 more furnaces were idle than at the opening of the month, and this has been considerably increased during November. Consumers are hesitant, and operate on a hand-to-mouth basis. Specifications on existing contracts are more sluggish. Prices of pig iron have declined, being closely related to the decline in the price of coke. Lower prices are reported in the warehouse steel market. There has been a tendency to reduce the spread between quotations of independent mills and the minimum schedule. Exceptions are tubular goods, for which there is a heavy demand, and wire products, which are less active but are holding firm. A noticeable decrease in the demand for wire rope during the past four weeks is reported from District No. 3 (Philadelphia), due to a falling off in drilling operations, and the condition of the lumber industry in the Northwest. Interest has centered recently in the announcement of the leading interest that no changes would be made in its minimum quotations under present conditions, and the announcements by leading independents of prices based on the minimum schedule. Structural steel orders during October were only 25½ per cent of capacity, and were the smallest since April, 1919. Conditions in the industry are reflected in the decline in the unfilled orders of the United States Steel Corporation, which amounted to 9,836,852 tons at the close of October, corresponding to an index number of 187, as compared with 10,374,804 tons at the close of September, corresponding to an index number of 197. Both pig-iron and steel-ingot production during October, however, were greater than during September, daily pig-iron production being somewhat larger and daily steel-ingot production somewhat smaller. The figure in the case of pig iron was 3,278,104 tons, as compared with 3,129,323 during September, the respective index numbers being 141 and 135. A lesser increase was remarked in the case of steel ingots produced, rising from 2,999,551 tons in September to 3,015,982 tons in October, corresponding to index numbers of 124 and 125, respectively.

The nonferrous-metal industries are also passing through a period of small demand and declining prices. Stocks of copper are reported large, and there has been curtailment of output by producers. Output of the metal in District No. 9 (Minneapolis) during October, according to reports from companies producing about 75 per cent of the total output of the District, was 94 per cent of the September figure and 67 per cent of that in October, 1919. It is stated that a decrease in export demand has affected the volume of production. Copper production in District No. 12 (San Francisco) is about 60 per cent of normal, certain mines in Arizona having ceased operations and others curtailed output. Lead has generally been believed to be in a somewhat better position than either zinc or copper. Producers in the Joplin district shut down their mills during the last two weeks of October, the shutdown being the most complete ever attempted in the district. Reports state that it is intended to run only three days a week, and as a result to do away with the large surplus stock maintained in the district since last year.

The depression in the textile industries continues to manifest itself in further shutdowns and more extensive curtailments of working time. It is difficult to estimate the percentage of capacity in operation, as mills are working not only below capacity but on part time and some are closed for indefinite periods. One large New Bedford cotton mill reports operations at only 20 per cent of capacity, another at 44 per cent, while one of the largest Lowell corporations is running 60 per cent of its machinery for four days a week and a large Maine mill is using 75 per cent of its machinery at one-half to two-thirds time. General estimates indicate that the cotton mills in District No. 1 (Boston) are operating from 30 per cent to 40 per cent of capacity and even so are manufacturing largely for stock instead of being engaged upon current orders. The United States Census reports that the amount of cotton consumed in the six New England States in October was 133,140 bales, or 15,302 bales less than in September. The amount of cotton held in mills at the close of the month was 463,369 bales, or 68,084 less than reported for September. In District No. 5 (Richmond) jobbers and retailers are said to be buying practically nothing. Cotton middling is selling at 17 cents on the markets of North and South Carolina. In District No. 3 (Philadelphia) no change in the cotton-yarn situation during the month has occurred. Apparently there is not sufficient buying demand to establish a market.

District No. 1 (Boston) states that there is practically no demand for raw wool and consequently no stabilization of prices. South American wools are somewhere around pre-war levels; domestic wools, although showing sharp declines from the peak prices, are nevertheless well above prewar levels. Curtailment of production persists in woolen mills as in other textile lines. It is said, however, that a certain amount of buying has recently been done by woolen mills in District No. 1 (Boston), although there is as yet no indication of renewed activity. District No. 3 (Philadelphia) asserts that demand for woolen yarns is virtually nonexistent. Reporting firms are either closed or operating at reduced capacity, the maximum for any reporting concern being 57 per cent of capacity. The goods are being produced chiefly for stock.

In underwear lines the situation is similar. District No. 3 (Philadelphia) says: "It is doubtful whether more than 25 per cent of the productive capacity of the mills in this District is now being maintained." Statistics received from 20 reporting mills bear out this statement, as the value of the products manufactured by these mills fell 12.8 per cent during October as compared with September, while the latter month witnessed a decline of 27.5 per cent from August totals. The value of the output was 42.1 per cent less than in October a year ago. Unfilled orders at the end of the month were 71.2 per cent below the figures for a year ago, whereas at the end of September they were 47.6 per cent below the amount for the corresponding month of the preceding year. There were no records of orders booked during the month, and those already placed have been canceled to a great extent. Price revisions early in October were without effect and were discontinued. Carpet and rug manufacturers in District No. 3 (Philadelphia) are also faced with a similar situation - negligible current orders and extensive cancellations of those already placed. Many of these mills are closed while a few are running at anywhere from 25 to 75% of capacity.

Reports received directly from 39 hosiery firms in District No. 3 (Philadelphia) which sell to the wholesale trade show a decline of 69 per cent in the selling value of goods manufactured during the month of October as compared with October, 1919, while the value of finished products on hand at the end of the month is 98.2 per cent greater than a year ago, even at present selling prices. Unfilled orders on hand (selling price) at the end of the month show a diminution of 85.1 per cent as compared with October, 1919, and of 47.2 per cent as compared with the preceding month. Orders are said to consist principally of requests for a few numbers to fill in broken lines. Operations are at a low ebb and there are many complete shut-downs. Seven hosiery firms selling to the retail trade show reductions in value of output of 50.4 per cent as compared with 46.1 per cent in the value of finished products on hand at the end of the month, while unfilled orders (at the end of the month) were 71.8 per cent less than in September. Statistics of unfilled orders for October a year ago are not available but the reduction in September orders at the end of the month as compared with September, 1919, was 71.6 per cent.

Reports covering the month of October have been received from 33 firms belonging to the National Association of Finishers of Cotton Fabrics. The total number of finished yards billed during the month including white goods, dyed goods and printed fabrics amounted to 46,233,000 yards as compared with 58,670,000 yards reported by the same firms for September. The average % of capacity in operation for all reporting districts was 33%, but in District No. 1 (Boston) and No. 2 (New York) the returns averaged only 26% and 27% respectively. In District No. 3 (Philadelphia), the average rose to 53%. The total average number of days of work ahead for all reporting districts at the end of October amounted to 4.4 days as compared with 6.9 days at the end of September. District No. 1 (Boston) reported an average of 2.6 days of work ahead; District No. 2 (New York) an average of 5 days, and District No. 3 (Philadelphia), an average of 6.6 days.

Twenty seven representative mills reporting to the Association of Knit Goods Manufacturers had unfilled orders amounting to 137,685 dozen at the beginning of October as compared with 340,444 dozen on the first of September. Production during October totalled 159,124 dozen whereas 250,316 dozen were manufactured in September. Shipments were 113,446 dozen in October; 228,089 dozen in September, while cancellations amounted to 25,668 dozen and 26,089 dozen respectively.

Thus far there have been no indications of revival in the silk industry. The fact that this is normally a dull period of the year, together with uncertainty as to the outcome of the attempts of the Japanese Government to stabilize prices, are mentioned as factors that contribute to stagnation. Prices of raw silk in New York are said to be about the same as the minimum established in Japan, Shinshu No. 1 selling for about $6.25 per pound. Stocks in local warehouses are said to amount to about 50,000 bales. District No. 2 (New York) says that at Paterson, N.J., during the week ending November 8, a total of only 90,920 loom hours was achieved, or 8.6 per cent of the maximum possible on the basis of a 44-hour week. Bradstreets announces that there have been 126 failures of small concerns in Paterson, while about 150 plants are closed.

Manufacturers of men's clothing have announced reductions varying from 33 per cent to 50 per cent in the price of winter clothing. Rochester manufacturers have shown spring lines at prices 25 per cent to 33 per cent below those for the fall and winter, but so far few orders have been placed. As makers of women's suits and dresses have no surplus stocks, prices have not been reduced to the same extent.

In the leather industry few changes have occurred during the month. No large orders for future delivery are being placed, chiefly because of the lack of demand from boot and shoe manufacturers. In consequence, quotations for hides and skins continue to drop. Kansas City quotations on hides are below the 1911-1914 average, while certain grades of hides are at the lowest level reached since 1905. On November 12 No. 1 wet salted hides sold in St.Louis at 7 cents per pound, as compared with 9 cents a month ago and 41 cents in 1919. According to the report from District No. 1 (Boston), however, several large tanning concerns have recently entered the market and are stated to have bought considerable quantities of raw stock. Tanneries in District No. 3 (Philadelphia) are being worked at greatly reduced capacity or else are closed down.

In District No. 1 (Boston) the boot and shoe industry is said to be not over 50 per cent normal, and although reports from a majority of concerns making returns show orders somewhat larger than a month ago, they are principally for immediate sale. In District No. 3 (Philadelphia) the situation is about the same. District No. 8 (St.Louis) says that shipments of boots and shoes in October and during the first half of November, were close to a year ago, but new business had declined anywhere from 40 per cent to 75 per cent, as compared with a year ago, and factory output had been reduced from 25 per cent to 40 per cent. There is considerable complaint of returns and cancellations.

Further recessions in wholesale trade are shown by the statistics compiled from the returns made by firms in eight of the twelve Federal Reserve Districts. As compared with October a year ago, the declines on the whole are much more general and much more pronounced, except in the case of hardware and drugs. But even in hardware lines recessions have occurred in Districts No. 6 (Atlanta) and No. 12 (San Francisco), amounting to 8.8 per cent with 9 firms reporting in District No. 6 (Atlanta) and 4.4 per cent with 23 firms reporting in District No. 12 (San Francisco). On the other hand, increases in hardware sales reported by Districts No. 3 (Philadelphia), No. 4 (Cleveland), and No. 5 (Richmond) are slight as compared with returns for a year ago, whereas in September they were considerably in excess of the sales for the same month of the preceding year.

In wholesale groceries all reporting districts except District No. 12 (SanFrancisco), show declines in October sales as compared with October 1919, while in the month of September only one district (Dallas), reported declines as compared with September, 1919. In District No. 3 (Philadelphia) 20 wholesale hardware dealers report a negligible decrease in the volume of net sales as compared with September, but sales are still 6.7 per cent above October, 1919. Total prices have not changed greatly, but collections are somewhat slower. Reports from 50 wholesale grocery firms in District No. 3 (Philadelphia) show net sales to be 11.1 per cent less than in September and 11.2 per cent less than for October, 1919. It is stated that declines are general and are not confined to a limited number of establishments. In District No. 4 (Cleveland) declines in the volume of net sales of wholesale dry goods firms (4 firms reporting) and wholesale grocery firms (3 firms reporting) as compared with a year ago amount to 27.5 per cent and 10.8 per cent, respectively, while hardware sales have been maintained, being 2 per cent in excess of the levels of 1919. In District No. 5 (Richmond) decreases have been especially heavy in wholesale dry goods, sales being 40.5 per cent below September sales and 47.4 per cent below sales for October, 1919. Wholesale shoe lines, with 8 firms reporting, show declines of 16.3 per cent as compared with September and of 36.3 per cent as compared with a year ago. In furniture lines, however, increases of 7.5 per cent and 12.2 per cent, respectively, are recorded for 4 firms. Collections are reported to be about as satisfactory as they were a month ago. In District No. 6 (Atlanta) a decline has occurred in all four lines for which reports are received, namely, groceries, dry goods, hardware, and shoes, not only as compared with the preceding month, but also as compared with October 1919. The average declines in sales of wholesale shoe firms dropped 36.4 per cent from the preceding month and 32 per cent from the totals of a year ago. while the declines for wholesale dry goods dropped 38.8 per cent and 46.2 per cent, respectively.

In groceries the decline was slight as compared with September, being only 1.3 per cent, but amounting to 26.1 per cent as compared with October, 1919. There is said to be little buying for spring requirements in any line reporting. In District No. 7 (Chicago) declines are recorded as compared with October, 1919 for dry goods, shoes and groceries, amounting to 34 per cent for dry goods, 13 firms reporting, 32.6 per cent for shoes, 9 firms reporting, and 15.2 per cent for groceries, 25 firms reporting. In District No. 10 (Kansas City) reductions in the volume of sales for reporting grocery, hardware, and furniture concerns are found both as compared with October, 1919, and with the preceding month. In District No. 12 (San Francisco) all reporting lines showed declines in net sales, as compared with September, the declines being greatest in automobile tires and dry goods, amounting to 18.8 per cent and 17.5 per cent, respectively, while in wholesale drugs and groceries the declines were only 1.3 per cent and 2.3 per cent. On the other hand, although sales as compared with the preceding year were less in automobile tires, shoes, dry goods, hardware, and furniture lines, increases were reported in stationery, drug, and grocery lines, amounting to 21.9 per cent in the case of stationery, 12 per cent in drugs, and 9.6 per cent in groceries. Current unfilled orders are reported to be much smaller in the stationery business.

adapted to peace conditions; but no matter what the course of legislation will be, the solution of our economic and financial problems will depend mainly upon individual effort, and calls for good judgment and forbearance, self-reliance and cooperation, and a display of courage and optimism, which, after all, is really justified by fundamental conditions.

In retail trade the "reduction sales" which were prominent in some districts during September became somewhat general during October, but in some sections these sales are still "spotty". Cold weather in most sections has stimulated the buying of clothing but in general the usual seasonal demand is still lacking. There is generally reported a decided determination on the part of the public to wait until prices come down, and this is characterized by some as a "consumers' strike". Stores generally are reducing stocks and making no attempts to replenish them. Outstanding orders are declining, and retailers are ordering only what is needed to meet day-to-day requirements. While prices are slowly but generally declining, it is still felt that present declines have not paralleled declines in wholesale prices. "Shoppers" are confining buying to necessities and staples. There is a tendency for retailers, according to the majority of reports, to endeavor to realize on goods at as near the present level of prices as possible. The holiday trade is generally expected to move a considerable part of the present stocks. The volume of trade in general has been better maintained in the case of department stores than in the case of stores dealing in special commodities only. The volume of trade during October as compared with October, 1919, differs somewhat in the different Districts. In District No. 1 (Boston) there is no change, but in District No. 2 (New York) it has increased, and likewise in District No. 6 (Atlanta), with the exception of the city of Atlanta. In District No. 10 (Kansas City) a decrease of 1.03 per cent is shown, and in District No. 9 (Minneapolis) a decrease of 3.2 per cent, while in District No.11 (Dallas) the increase is roughly 16 per cent, and in District No. 12 (SanFrancisco), 8.2 per cent.

October and early November price changes were more general and extreme than for any other period since the readjustment in prices commenced. The Board's index number registered 208 in October as compared with 264 in May, when prices were at their peak, and 226 in September. The radical change between September and October was due to the weakening in iron and steel prices, which had previously remained firm, and the more extreme revisions in cereal, textile, lumber, and non-ferrous metals prices. By November 20 reductions had been made in bituminous coal prices, and here and there cement, brick, and paper showed signs of weakening. Instability of price was marked in practically all commodities during this period. Even in those industries where large reductions had been made earlier in the year there was apparently little confidence in existing values. Where the revision in prices has only just begun this feeling of uncertainty is equally prevalent. Industrial inactivity accounts in large measure for the revisions in coal, iron and steel, and other metal prices. The decline in export trades is at least in part responsible for the fall in prices of cereals, meats, cotton, lumber, and copper. Surplus stocks in such lines as wool and copper have helped to bring about the revisions in these commodities.

Although all reports indicate that retail prices in particular lines have been cut, it is generally admitted that revisions have not been made on the same scale as in wholesale trade.

So far there is no evidence of a revival of activity in the lumber industry, as contracts continue to fall off and new orders to decline in volume, despite price recessions. In District No. 1 (Boston) some lumber mills have closed down entirely and curtailments are general in the absence of demand. Prices are said to be from 25 per cent to 40 per cent below previous levels. In District No. 6 (Atlanta) a number of mills are closed, shipments are exceeding orders and production, and stocks are being reduced in consequence. The 143 mills belonging to the Southern Pine Association reporting from District No. 6 (Atlanta) have a normal weekly production of 90,837,000 feet, but the output for the week ending October 29 was only 58,665,000 feet or 35.4 per cent below normal, while shipments amounted to 60,939,000 feet and orders, 44,673,000 feet. District No. 8 (St. Louis) estimated on the basis of data on hand that 50 per cent of the mills in the Mississippi Valley had closed. The market for hardwood was reported to be inactive and there was a great spread in prices for yellow pine. In District No. 9 (Minneapolis) special reports from 13 lumber manufacturers giving cut, stocks, and shipments/ show that lumber cut and shipments declined while stocks increased. There has been a marked decrease in unfilled orders. The combined statistics (given in thousands of board feet) are as follows:

	Ostober	September	Per cent October of September	October 1919	Per cent October 1920 of October 1919
Lumber cut	23,882	24,853	98.1	23,986	99.5
Stocks	154,622	141,431	100.2	134,478	115.0
Shipments	11,260	16,602	67.8	28,338	39.7

Thirty-two reporting mills in District No. 11 (Dallas) belonging to the Southern Pine Association, which have a normal weekly output of 20,116,000 feet, reported an average weekly cut of only 12,058,000 feet for the four-week period ending October 29, and shipments amounting to 11,982,000. Unfilled orders amounted to slightly more than two weeks' normal production, or 43,101,000 feet. Reports from the four associations of lumber producers in District No. 12 (San Francisco) show continued inactivity in the industry. It is stated that railroad buying, principally of ties, and California requirements constituted the principal items for northwestern lumber. Figures of cut, shipments, and orders (in thousands of board feet) of the associated mills in District No. 12 (San Francisco) were as follows:

	West Coast Lumbermen's Association		Western Pine Manufacturers' Association	
	Four weeks ending Oct. 23.	Preceding four weeks	Four weeks ending Oct. 23	Preceding four weeks
Average number	120.	123	36	32
Cut	274,685	286,480	103,806	102,763
Shipments	235,356	233,220	53,745	65,340
Orders	213,315	202,008	32,625	33,075

	California White and Sugar Pine Manufacturers' Association		California Redwood Association	
	Four weeks ending Oct. 23	Preceding four weeks	Four weeks ending Oct. 23	Preceding four weeks
Average number	8	8	10	10
Cut	38,821	43,529	24,906	26,029
Shipments	14,336	17,113	16,059	17,626
Orders	9,185	12,789	22,605	19,388

Furniture factories in District No. 5 (Richmond) are receiving few orders. They are either shut down or running below normal, while in District No. 8 (St. Louis) buying is confined almost exclusively to buying for immediate use. Jobbers and retailers are placing no orders for stock.

As might be surmised from the lack of demand for lumber and other building materials, further general declines in building activity are noted in October. In District No. 1 (Boston), with the exception of Hartford, Manchester, (New Hampshire), and Fitchburg, all 12 reporting cities show decreases in the value of permits issued as compared with October, 1919. Exceptional construction work in Hartford and Manchester raised the total valuation, however, above the figures for the same month last year. Applications for building permits, including alterations and repairs, in 36 cities in Massachusetts were 27.3 per cent less in October than in September, falling from $6,269,000 to $4,558,000. In District No. 2 (New York) contracts for buildings, as reported by the F. W. Dodge Co. for New York State and northern New Jersey, amounted to $49,207,000 in October, as compared with $59,818,000 in September.

District No. 3 (Philadelphia) reports that the total number of permits issued amounted to 2,310 in October, as compared with 1,190 for the same month a year ago. Estimated cost of construction was $4,804,735 in October, 1920, and $8,246,000 in October, 1919. In Philadelphia the value of building permits was $4,840,000 in October, 1919, and $2,590,000 in October of this year. InDistrict No. 4 (Cleveland) building permits for new construction amounted to 479 in number, with a total value of $6,028,000, in October, 1920, whereas 2,596 permits were issued in October, 1919, with a total value of $13,869,000. Permits for repairs and alterations were slightly in excess of those for 1919 in point of value. Declines in the valuation of permits have been general in District No. 5 (Richmond), as compared with a year ago, the totals for new construction and repairs in 22 cities of the district being 8,504,000 in October, 1919, and only $4,453,000 in October, 1920, a drop of 47.6 per cent. In permits for alterations there was a slight increase from $1,178,000 to $1,409,000. In District No. 6 (Atlanta) decreases in the valuation of permits are reported from a majority of cities for which returns are secured. Of the 33 cities reporting in District No. 7 (Chicago), only five show an increase in the value of permits as compared with October, 1919, the decrease being in excess of 60 per cent in the majority of cases. Very little building is in progress in District No. 8 (St. Louis), the five leading cities showing sharp declines in value of permits issued, as compared with a year ago. In rural districts, it is said, new building has been either postponed or abandoned. The situation in District No. 9 (Minneapolis) is rather unusual in that permits granted in the 9 largest cities increased 5 per cent in number and 43 per cent in value for September, but the volume was nevertheless only about 75 per cent that of October, 1919, A very heavy increase in Sioux Falls, where permits were valued at $429,000 in September, has markedly affected the average. Actual total values for all 9 cities were $3,311,000 in October, $2,312,000 in September, and $4,304,000 in October, 1919. In District No. 10 (Kansas City) there was an increase in building operations as compared with September, but total valuations in October were 48.7 per cent below the corresponding totals for October, 1919, for the 17 reporting cities. In District No. 11 (Dallas) a large number of permits was issued in October, but the valuation was smaller than for the preceding month. For the district as a whole there has been a decrease of 60.1 per cent in the value of permits as compared with October, 1919, the actual totals being $6,526,000 and $2,604,000, respectively. Of the 9 reporting cities, only Beaumont registers an increase, Galveston showing a decline of 76.2 per cent, Houston 64.8 per cent, and Dallas 57.2 per cent. The falling off in building activity, which was only apparent in the Pacific Northwest in September, became general throughout District No. 12 (San Francisco) in October. Building permits in the 19 principal cities averaged 15.8 per cent less by value and 9.9 per cent less in number than for the preceding month, the decrease being less pronounced, however, in the interior than on the coast. There was an increase, as compared with October, 1919, of 18.1 per cent by value and 29.5 per cent in number of permits issued.

In the industrial sections of the country unemployment continues to increase and has assumed large proportions in the textile districts and in centers of boot and shoe manufacture. In some parts of the country wage decreases have accompanied the decline in employment, while elsewhere reductions of wages have not yet been much in evidence. Massachusetts official statistics on unemployment as of September 30, based upon returns from 1,103 trade-unions with a membership of 255,000, show that the percentage of unemployment in the textile industry was then 26.3 per cent, and in boots and shoes 40.9 per cent. The total percentage for the State was 19.3 per cent of union membership, the highest since March, 1908. Wage reductions of 15 per cent to 20 per cent in textile plants in many New England centers are also reported, although recently the Manufacturers' Association of Fall River and the Textile Council agreed upon the maintenance of existing wage schedules following the expiration of the present agreement. In District No. 2 (New York) it is estimated that there was a decline of about 5 per cent in the number employed in November as compared with the preceding month. This estimate is based on preliminary figures from the New York State Industrial Commission, supplemented by data obtained from employers and labor unions. The New York State Industrial Commission finds that while 358,806 persons were employed in factories in a selected list of industries on August 1, there remained only 212,616 on November 10, a decrease of 146,190. However, as the intention was to select those industries which had been most affected by declines in business activity, the statistics have to be taken with reservations. In Paterson, N. J., 25,000 silk workers are reported to be unemployed. In District No. 3 (Philadelphia) unemployment is increasing in many lines, notably among textile mill workers. In District No. 4

(Cleveland) there is also increasing unemployment. In District No. 5 (Richmond) "there is a marked increase in unemployment of both skilled and unskilled labor." A number of cotton mills in North and South Carolina have reduced wages about 15 per cent. In District No. 7 (Chicago) unemployment is increasing in automobile centers, while a considerable number of the 45,000 garment workers in the district are idle for at least part of the time. District No. 8 (St Louis) reports a surplus of labor in practically all lines, but more particularly in lumbering transportation, clothing, and shoe manufacturing. Wage reductions, however, have been insignificant . District No. 10 (Kansas City) does not think that unemployment is greater than usual for the season, and District No. 12 (San Francisco) reports little more than customary unemployment, with no unemployment of skilled labor reported, although there is a decrease in the labor turnover. In the agricultural regions, on the contrary, the supply of labor has not been excessive in relation to the demand. Indeed, in some parts of the country reports of shortage are still heard, while wages have been generally maintained at a high point. Cotton pickers and corn huskers are scarce in District No. 5 (Richmond). It is reported from District No. 6 (Atlanta) that farm labor in Louisiana is barely sufficient to harvest the crops, while District No. 12 (San Francisco) says that in the Mesa, Phoenix, and Yuma sections there is a shortage of cotton pickers.

Financial developments during the month have shown stability and successful readjustment to conditions. The outstanding development has been a reduction of rates of interest both on call and time funds and to a moderate extent for commercial paper. Some decrease in the demand for bankers' acceptances has occurred, although a considerable number ofnew customers in this field have been noted in the financial centers. Country banks have been active buyers of commercial paper during the month. As was to be expected, a curtailment has occurred in the amount of inter-reserve-bank rediscount operations, and despite the withholding of crops from market in some parts of the West the process of liquidating farmers' obligations and of moving the funds to the cities to meet obligations there has made some progress. The season has been characterized by the heavier volume of applications made by out-of-town to city banks for advances, but with the approach of the end of the year some relative lessening in the volume of these requirements is naturally observed. Foreign exchange during the month has been unsettled and irregular. Quotations for sterling, francs, and lire have on the whole tended downward, although from time to time there have been reactions toward higher levels which, however, were usually not long maintained. Continued heavy exports of staple products have thrown upon the market large volumes of bills which, together with the overhanging balance of exchange carried upon the books of foreign banks and business houses, have tended to prevent the market from reacting in any prominent or sustained way to higher values. There has been a decline in theactivity of debits to individual deposit account in the clearing-house banks reporting to the Board, which may be interpreted as reflecting the lessoned volume of general business. Investment demand has been lower and declining prices for stocks have tended to discourage buyers of securities. The situation in the stock market has been parallel to the condition prevailihg in commodity markets generally, liquidation in the one being reflected in heavier selling and a lower level of values in the other.

In export trade the outstanding feature of the month has been seen in the growth of cancellation of orders, especially from South American points, which has tended to subject export enterprises to uncertainty. One effect of this situation has been to cause banks to exercise greater caution in connection with the purchase of drafts. Nevertheless the total volume of exports has been tolerably well maintained as a result of the large movement of staples to foreign and especially to European ports.

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FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in Monday morning papers,
December 6, 1920.

The Federal Reserve Bulletin for the month of December devotes much space to a discussion of economic and financial conditions during the year just closing. It says:

Close of a Remarkable Year

The year 1920 has been a period of decided advance in the process of economic readjustment consequent upon the conditions left by the war. Production had been developed to a very high point as a result of war necessities, besides being diverted into channels different from those normal in peace time. It was, therefore, inevitable that a period of readjustment involving some decrease in output, at least temporarily, should ensue. On former occasions, when problems of a similar sort have developed, the process of readjustment from a war to a peace-time level of business has been extremely rigorous. Conditions during the present period of readjustment have by comparison been tolerable. Production during the latter part of the year has, it is true, fallen off in some branches following upon the readjustment of the price structure. Fundamental alterations in the distribution of labor between trades and employments have also been a feature of recent months. In the banking field the advance of the volume of deposits changed during the recent months into a recession, although Federal Reserve note circulation was about $200,000,000 larger at the close of November than at the end of July. It is also to be noted that there has been a marked change in the composition of bank portfolios resulting from the gradual retirement of long-term or speculative paper and the substitution of paper based upon bona fide commercial transactions growing out of the actual purchase and sale of goods. In international trade the conditions which led to an excessive development in exporting business have been in process of change, and a return to more normal conditions is now in progress. So far as concerns the European countries the year has been noteworthy in international trade for a decided evidence of increase of productive power which, although interrupted from time to time by internal difficulties of one kind or another, has nevertheless been the dominant feature in the foreign economic movement.

Very sharp reduction in prices coupled with heavy decreases in production, extensive unemployment, and business reaction, often involving bank failures, have been the outstanding features of readjustment in former years. The transition through which the community is now passing, while necessarily uncomfortable, has thus far been accompanied by only a minimum of the unfavorable symptoms developed on other occasions. While the present process is as yet incomplete and while some lines of business may be expected to pass through a still further period of reorganization, there is good reason for believing that with our present strong banking structure the difficulty of the transition will not be much further aggravated and that a normal situation will be restored with far less than usual distress. The fiscal situation both at home and abroad is still uncertain due to the fact that while the war was technically over at the signing of the armistice, it was not over in the financial sense until a long time later, while it has not been possible during the readjustment period to place public finance in any country upon its peace time footing, pending much closer ascertainment of the best method of taxation. The close of the year 1920, however, in spite of the fact that in some branches of economic and financial life there is still much progress to be made before reaching a definite basis for further growth, must nevertheless be regarded as quite unmistakably a turning point in the process of transition from conditions produced by the war to the normal economic basis of international and industrial life.

The Basis of Prosperity.

In thus estimating the position of the economic organization at the close of the year 1920, very large emphasis should undoubtedly be placed upon the volume of production. It is in the quantity of output supplied by a nation that the best test is found of its true position from the economic standpoint. Although the year 1920 shows a downward movement in some branches of production and trade and a lessening of the activity with which credit media are employed, a gratifying aspect of the year is seen in the fact that the changes thus far reported have been so small, especially when the great activity of production and the great extension of credit which occurred during the war period are borne in mind. Considering the year 1920 in comparison with similar periods, reaction shown by the indexes representing the chief lines of business activity, as already stated, is in most cases relatively minor as compared with the volume of production and trade when at its high point. While much is said of changes in prices and particularly of declines of prices as an indication of economic retrogression, it is to be remembered that the real income of the community is the quantity of goods available for consumption and not the money value of the goods thus produced. The fundamental test of the degree in which conditions which make for prosperity have been regained and former industry restored is found in the indexes which exhibit actual volume of output. Of primary importance are statistics showing the yield of agricultural and manufacturing industries. Next to these are indexes showing the actual movement of goods from producer to consumer. The latter may be best derived from statistics of freight movement, figures showing the activity of money and credit, and data reflecting activity of wholesale and retail trade. Prices play an important part as a factor in the process of distribution, and the price level is of first significance to the student of business conditions because it aids in definitely determining the profit-making position of the various economic factors of the community as measured in terms of money. It is true that reductions in wholesale prices in 1920 have greatly lowered the general levels. It should be remembered, however, that far too great stress may be placed upon the level of prices in connection with national conditions, since prices are expressions of relative value and hence of much greater interest to the individual than to the community at large.

The Volume of Production.

Viewed from the standpoint of the volume of commodities rendered available for consumption, the year 1920 has been one of unusual success. As is well known, the output of primary wealth - the product of the farms and, in general, of agricultural enterprise - has been of more than average size. Preliminary estimates have already been furnished for this output in former months. The figures of the Department of Agriculture, made available at the opening of November, are substantially the same as those which have already been published for October 1 and, as pointed out in past issues, exhibit in most lines a substantial advance above the average of recent years, and in some important crops constitute the largest output ever produced. In the case of corn, the only product for which the November estimates differ from those of October, the estimated output, although showing a decline of about 17,000,000 bushels, still remains the largest on record.

While the situation as to agriculture is practically beyond question, the work of the year in respect to manufacturing is less clear. According to some investigators, however, the output of the country, whether as measured in the aggregate or per capita, was probably close to high-water mark at the close of spring. The facts would indicate that in the more distinctly manufacturing and industrial lines there had been subsequent to the heavy war production a natural decrease in and readjustment of output which became evident shortly after the opening of 1919 and which continued for several months thereafter. The requirements of buyers did not dominate market conditions, but there subsequently developed shortages in various lines. Of this situation the final result was a considerable increase in productive activity, although in some lines, such as those of textile production, a so-called "sellers' market" eventually developed. That this situation had not become well established until the spring of 1920 was far advanced is not singular. This period of higher production was apparently reaching its peak during the early months of 1920. Since the late spring of the year 1920, however, there has been in progress a certain decrease in output. The condition of different industries in this regard is by no means uniform, although it may be seen most clearly in textiles. Shipbuilding and very recently the iron and steel industries, exhibit an influence of the same kind. The decrease in unfilled orders on the part of the United States Steel Corporation, which has been in progress ever since about the beginning of August, points clearly not only to a relative decrease in the activity of these basic industries but also to a falling off in that of other industries which are practically dependent upon them. Building construction may be ranked as one of the latter. x x x x x x x x x x

Movement of Goods.

Care should be taken in reviewing conditions at the close of the year 1920 and in comparing them with those existing at previous dates throughout the year to differentiate between production changes and trade changes. In all periods of transition it is the latter that are the more obvious. It should steadily be borne in mind that the year 1920 has been a more disturbed period in connection with the movement of goods to market than in production, and that as a result there has been at times congestion and arrested movement of commodities, while at other times the delivery and consumption of products has been steady and satisfactory. In general, the year may be divided into three periods, the first culminating in the early spring or toward the end of April, at which time a peak of congestion had been reached on the railways as the result of bad weather and lack of satisfactory efficiency of railroad personnel aggravated by the tentative or "outlaw" strikes which had been in progress. Thereafter there ensued a period of fairly steady moving of commodities to points of consumption, assisted by the favorable weather in the spring and summer as well as by the increase in efficiency of the railroads of the country. From about September onward the movement of goods again began to show a decline, this being due in the case of agricultural staples to a tendency to hold products at the points of production, while in the case of manufactured articles it was probably the outcome of a reluctance or unwillingness on the part of distributors to go on receiving consignments. This situation has been noteworthy from time to time not only with respect to the domestic movement of goods but also in relation to exports. It was worthy of note also that in spite of the large yield in agricultural lines the grain movement has been unexpectedly small, partly in consequence of defective transportation at certain times of the year and partly as a result of a disposition on the part of farmers to hold back their product. Conditions in transportation were reflected in the figures showing the movement of goods last spring and in certain decreases of the same sort for the current autumn, notwithstanding that the ton-mile figures on railways are to-day of large size. x x x x x x x.

An examination of the index numbers for the value of imports and exports leads to the conclusion that, with price fluctuation eliminated, our export volume for 1920 is on a lower level, some of the months for the period being lower than the average monthly figure for 1913. The volume of imports, however, is higher than the 1913 level, a fact which illustrates the statement often made that the reaction subsequent to the war which had been generally predicted by economists is now in progress. The figures for imports and exports, both when measured in volume and when measured in values, have shown an absolute tendency to fall off, although the growth of imports up to the present time has been greater than that of exports when adjusted values are taken as a basis for comparison. The year 1920 must undoubtedly be regarded as a period of transition from war conditions to peace conditions in our foreign trade. These changes are most clearly illustrated when the influence of price fluctuations is eliminated from figures in order to place them on a comparative basis of volume. x x x x x.

Retail Trade.

The activity of retail trade is usually regarded as a direct index of the attitude of consumers with respect to the price level and is looked to by students of the business situation not merely for the purpose of obtaining a test of business conditions from the retail trade standpoint, but also of affording an indirect index of the probable rate at which stocks of goods will pass off through retail trade channels into the hands of consumers. For a good many months past the Board has been developing a retail trade index based upon figures concerning stocks of goods, turnover, and other important items furnished by a specified number of leading retail establishments in the several Federal Reserve Districts. A study of these figures, and especially a comparison of cumulative single percentages designed to embody not only the returns of the current month but also accumulated results of preceding months, point to a decline in sales, which has not, it would seem, gone to very great length thus far, in some districts amounting merely to the curtailment or abolition of a seasonal increase of the volume of business which would otherwise have been expected, the remaining volume being higher than that of the preceding year. The tendency, however, in other districts has been distinctly downward, and at the present time the Board's index points clearly to a limitation of the active buying of consumers which was so noticeable during 1919 and the earlier part of 1920. This bears out the general impression already existing with respect to retail trade conditions as indicated by many reports of a general nature furnished by expert observers in the various branches of trade. The activity of retail trade is of special interest at the present time, because it usually is one of the last elements in the business situation to show the effects of those factors which make for depression or reduction. Curtailment of purchasing power does not usually occur, at least in full measure, until reductions of employment and lowering of prices have resulted in lessening the incomes of buyers who are thereby induced to suspend or limit their purchases. Accordingly, a definite reaction in retail trade seldom presents itself until after readjustment has made considerable progress in manufacturing and even in wholesale activity. This is for the reason that the decline in retail trade makes itself felt in some districts at a date considerably later than that which appears to mark the turning point in production by manufacturers.

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Production and Foreign Exchange

The downward trend of exchange during 1920 appeared to have reached the low point toward the middle of November, when sterling was quoted below 3.30. As may be seen from the graphic representation already published in the last issue (p. 1159), the movement of practically all European exchanges has been steadily downward and practically on parallel lines since early in the year. The sharp depression which was brought about in the early part of November was attributed by experts to the necessity of financing considerable quantities of grain and cotton bills growing out of the shipments of this year's products at a time when, as already pointed out in former issues, there was a very large outstanding indebtedness on the books of foreign banks and business houses, which resulted in creating an overhanging supply of exchange, which was at times "dumped" in the market whenever a slight upward trend suggested the possibility of converting foreign currencies into dollars at even a tolerably favorable rate. This, of course, was a situation primarily applicable only to European exchanges. Nevertheless in relations with South American countries the situation was equally unfavorable, due to conditions already set forth and including depression of prices as well as the disturbance of our foreign trade relationships with those countries. In a general way it may be said that the year 1920 has been a period of practically steady deterioration in exchange conditions, as reflected in the constantly growing open balances in favor of the United States which are being carried in an increasingly large list of foreign nations.

Foreign exchange conditions during the year 1920 throw interesting light upon the bearing of exchange rates on international trade. They show that abnormally low quotations of foreign currencies tends to reduce the export shipments of the nation, particularly when these low quotations are the result of unpaid balances which give rise to a quantity of exchange that may be thrown upon the market at any given moment. The exchange situation is therefore in some measure responsible for the slowing down of the export trade of the United States, and illustrates once more the necessity of action designed to bring about soundness in international financial relations. Another phase of present conditions which deserves particular attention is seen in the fact that as things stand the amount of our exports would seem to be quite closely conditioned upon the amount of our imports. As our banking and mercantile credit situation becomes more and more saturated with foreign credit, or, in other words, reaches a position where it is difficult to extend any more accommodation - certainly no more long-term accommodation - to foreigners, the natural inference would seem to be that current and future shipments of our goods abroad could be paid for in very large measure with contemporary shipments of goods to this country. Such a situation is evidently developing, as is seen in the study of foreign trade already presented. The facts as thus set forth afford a satisfactory explanation of the steady increase in our importations from abroad and furnish a warrant for the opinions of those who have believed that there would be a larger movement of goods into the United States as the result of the extensive credits which have in the past been granted foreign countries.

Prices and Trade.

Price movements have already been incidentally referred to as a factor affecting readjustment. The remarkable changes of 1920, however, require some special attention. In the case of wholesale prices, readjustment has occurred in a more striking fashion than in perhaps any other field. In January prices in the United States stood at 242 per cent of the pre-war level, according to the Federal Reserve Board index number. They continued to advance until April, when the index number stood at 263. May prices were at approximately the same high level, but since that time the decline has been quite considerable. By October the Board's number had fallen to 208, showing a decline of 21 per cent from the peak.

More or less similar readjustments have been made in foreign prices during the same period. British prices reached their peak in April and have been on the decline since then, the reductions in the past two months being especially noteworthy. Canadian prices have shown tendencies very similar to those in the United States. In Japan the drop in prices has been more extreme, the difference between the March and October index numbers amounting to 30 per cent.

France and Italy show somewhat different fluctuations. In both countries prices reached their peak in April of this year, receding from these high points during the next two months, but increasing again recently. But even in these two cases the index numbers are at slightly lower points than last spring. * * * * * *

FEDERAL RESERVE BOARD

WASHINGTON

December 7,1920.

X-2081

Dear Sir:

The Federal Reserve Board has made arrangements to issue the "brief edition" of the Federal Reserve Bulletin on or about the first of each month. Accordingly, the mimeographed statement of "business conditions" as published in the Bulletin, which the Board has been forwarding to you monthly, will be discontinued.

The "brief edition" of the Federal Reserve Bulletin (sample copy enclosed herewith) contains, in addition to the review of business conditions, the regular official announcements, rulings of the Board, etc. The "brief edition" of the Bulletin is issued at a subscription price of $1.50 per annum to cover the cost of paper and printing.

In addition to the "brief edition" of the Federal Reserve Bulletin the Federal Reserve Board issues about the twentieth of each month the complete Federal Reserve Bulletin which contains all of the information published in the "brief edition", also important banking statistics and special articles in connection with research work conducted by the Board, etc. The subscription price of the complete edition is $4.00 per annum.

If you desire to receive either the brief or complete edition of the Bulletin kindly forward your remittance to the Federal Reserve Board, using the enclosed form.

Very truly yours,

Enclosure.

R.G. Emerson.
Assistant to Governor.

FEDERAL RESERVE BOARD

WASHINGTON

December 6,1920.
X-2082

Subject: Proposed Forms of Certificates Evidencing Eligibility of Acceptances.

Dear Sir:

Sub-division (d) of Section B of Regulation A, Series of 1920, requires that

> "A Federal Reserve Bank must be satisfied, either by reference to the acceptance itself, or otherwise, that it is eligible for rediscount. The bill itself should be drawn so as to evidence the character of the underlying transaction, but if it is not so drawn, evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal Reserve Bank."

It has been suggested that the form of stamp or certificate adopted by all Federal Reserve Banks be the same, and there is enclosed for your consideration proposed form of certificate for use on each type of acceptance. You are requested to advise the Board whether it will be satisfactory to your bank to adopt the forms proposed and if not you are invited to make such suggestions for modification as you may deem proper.

Very truly yours,

Governor.

To Chairmen and Governors of all F.R. Banks.

Domestic Shipments: "At time of acceptance, this bill was accompanied by shipping documents evidencing the domestic shipment of (name of commodity) from (point of shipment) to (place of destination).

(Name of Acceptor) "

Import and Export Transactions:

"This acceptance arises out of a transaction involving (importation) of (name of commodity)
(exportation)
from (point of shipment) to (place of destination)

(Name of Acceptor) "

Warehouse Secured Credit:

"This bill was secured at the time of acceptance by independent warehouse, terminal, or other similar receipt conveying security title to (name of readily marketable staple) stored in (country where stored) and the acceptor will remain secured throughout the life of the bill.

(Name of Acceptor) "

X-2084

A BRIEF DISCUSSION OF PRESENT CONDITIONS

Address by

Hon. W.P.G. Harding,
Governor, Federal Reserve Board,

Before the

American Farm Bureau Federation

at

Indianapolis, Indiana.

Tuesday, December 7, 1920.

Released for publication
Wednesday, December 8, 1920.

There is an old saying - of Chinese origin, I believe - that "Things are never as good or as bad as they seem". We should take this philosophy to heart at the present time.

Price recessions and the resultant conditions are not peculiar to this country alone, but obtain everywhere (1) and in countries where there has been the greatest inflation of credits and currency the distress is most acute. Nor are present conditions unprecedented as far as particular nations are concerned, although it is true that a world-wide situation which depresses all basic industries and productive activities is unusual. In this country we are passing through a period of readjustment which it was expected we would enter into immediately after the signing of the armistice. In fact for a few months after that event there was an unsettlement in prices and a hesitation in business, but an urgent demand for commodities and manufactured goods soon developed which required satisfaction at any cost and prices bounded upward until they attained levels never before reached in the memory of the present generation.

In reviewing the conditions which existed a year ago, we all realize now what was sensed by many at the time, that things were not as good as they seemed, for price levels were unnatural and the burden of the high cost of living was too great to be permanently endured. It was generally recognized many months ago, following the collapse of the Japanese silk market early last spring, that sweeping price readjustments were inevitable. In fact, a year ago last summer the continued expansion of credits and the constantly advancing costs of living became objects of grave public concern. The Senate

(1) See Appendix "A".

of the United States on August 5th, 1919, addressed a communication to the Federal Reserve Board on the subject. Shortly afterwards the President in an address to Congress discussed these questions. From that time until the adjournment of Congress last June these matters were the subject of frequent discussions in both houses. On the 17th of May last, the Senate addressed a resolution directing the Federal Reserve Board "to advise the Senate what steps it purposes to take and to recommend to the member banks of the Federal reserve system to meet existing inflation of currency and credit, and consequent high prices, and what further steps it purposes to take or recommend to mobilize credits in order to move the 1920 crop." Reference is made to these incidents in order to direct attention to the trend of legislative sentiment a few months ago. In marked contrast are the efforts now being made to secure legislation to force expansion of credit and currency with a view of advancing prices.

The Federal Reserve Board is not charged with any responsibility for prices or living costs. It is a banking board, which exercises a general supervision of the Federal reserve banks, and the rates of discount which are fixed by the Board, following recommendations of the directors of the Federal reserve banks, are not fixed primarily with reference to prices. The Board cannot with propriety establish rates with a view of putting prices up or putting them down. In the determination of Federal reserve bank discount rates consideration must be given to general conditions and to current rates, and in the rate revisions which the Board has approved from time to time the view has always been taken that discount rates should not be pegged or fixed arbitrarily, for there are always certain basic conditions related to the demand for and the supply of credit in this country and throughout the world which must be taken into account, and the formal establishment of a Federal reserve bank rate is merely an interpretation of these conditions.

Federal resdrve banks are not permitted by law to have direct dealings with the public but they may rediscount for member banks upon their endorsement eligible paper as defined by the Federal Reserve Act representing loans or advancements made by the member banks to their customers. The lending powers of National banks are broadly defined in those sections of the Revised Statutes of the United States commonly known as the "National Bank Act", and those of the State banks and trust companies which are members of the Federal reserve system as well as those of the institutions which are not members are governed by the laws of the respective states in which these institutions are located. There is no centralized control over the discount policy of the individual member and non-member banks, and the Federal Reserve Board cannot compel banks to make loans which they do not desire to make nor can it restrain them from making loans which in the lawful exercise of their discretion they may make.

Normally the discount rate of a Federal reserve bank should not control the rates at which member banks loan money to their customers. In the countries which have central banks there is a well-established policy that the central bank discount rate should be maintained at a figure slightly in excess of the current market rate. The wisdom of such a policy is apparent for it eliminates all consideration of profit in rediscount transactions and gives the central bank better control over its own reserves and causes the banks which deal with the public to rely to a great degree upon their own resources in extending accommodations while still affording them an outlet for any undue [illegible] of loans. Because of the exigencies of war financing, it has not been practicable for the Federal reserve banks up to this time to adopt this policy and as a rule Federal reserve bank discount rates are lower than the rates charged by member banks. It is believed that conditions are gradually adjusting themselves so that Federal reserve bank rates may be maintained at a level slightly higher than current rates not only without any disturbance to commerce and business but to their distinct benefit. In fact, this adjustment has already begun in some cities where member banks have reduced their rates on commercial loans.

In ordinary circumstances banks rely upon their own lending power as measured by the sum total of their capital, surplus and deposits, and rediscount or borrow money only at certain seasons of the year, or at other times when unexpected demands are made upon them. Formerly it was not regarded as a sound policy or good practice for a bank to permit its loans to be habitually extended to a point which obliged it to be constantly indebted to other banks for borrowed money. Before the Federal reserve system was established banks were required to carry in their own vaults a certain percentage of their net deposits in gold or lawful money as a reserve. This percentage of reserve was considerably higher than that which is now carried. As regards national banks, the reserves required were 25% in gold or lawful money for banks in the central reserve cities, New York, Chicago and St. Louis, for all other reserve city banks 12½% cash in vault, and 12½% with banks in central reserve cities, and for country banks 6% cash in vault, and 9% with banks in reserve or central reserve cities. This percentage of reserve applied to the time deposits as well as to demand deposits. The framers of the Federal Reserve Act felt that with the Federal reserve banks established and a dependable means of rediscount provided, these reserves could be lowered with safety, thus increasing the lending power of the banks in a corresponding degree. The present law does not require any member bank of the Federal reserve system to carry any specific amount of cash in its own vault. All lawful reserves are kept with the Federal reserve banks. Banks in central reserve cities must carry with the Federal reserve bank a balance equal to 13% of their net demand deposits, banks in reserve cities 10% and country banks 7%. On time deposits the reserve required in all cases is only 3%. The Federal Reserve Act, therefore, has greatly increased the normal lending power of the member banks out of their own resources, leaving out of consideration entirely the additional lending power they can acquire by rediscounting with the Federal reserve bank.

The extent to which the discount facilities afforded by the Federal reserve banks are now being used shows that through the medium of member banks the Federal reserve banks are participating actively in extending credits. On August 22, 1907, just before the panic of that year, bills payable and rediscounts of all national banks amounted to $59,177,000 against total loans and discounts of $4,709,027,000, the percentage of bills payable and rediscounts to total loans being 1.26%. On September 23, 1908, the percentage was 1.11%; on September 12, 1914, total bills payable and rediscounts had increased to the then unprecedented amount of $150,071,000, or

2.34% of the total loans, which amounted to $6,417,910,000. This increase was due to the disturbance incident to the outbreak of the European War. On September 12, 1916, bills payable and rediscounts had fallen to $91,893,000, or 1.16% of the total of loans of all national banks. On September 11, 1917, the first year of our participation in the war, bills payable and rediscounts amounted to $285,104,000, or 3.09% of the total loans, $9,234,289,000. These figures, of course, reflect war financing. The same observation will apply to figures compiled from reports of conditions of national banks on August 31, 1918, and September 12, 1919, when the percentages of rediscounts to total loans were 12.8% and 13.04%, respectively. There has, however, been no new financing by the Government since the flotation of the Victory Loan; the total volume of Government obligations outstanding has decreased since September 12, 1919, when rediscounts and bills payable of all national banks amounted to $1,505,516,000, while on September 8, 1920, the national banks' liability for money borrowed in this way amounted to $2,299,640,000, or 16.8% of their total loans of $13,723,611,000. The figures for state banks and trust companies are not available, but there is no reason to believe that the proportion of money borrowed by these institutions to their loans and discounts is any less than that shown by the national banks.

The impression exists in the minds of many that the Federal reserve system has adopted a policy of radical deflation and that the farming interests have been the chief sufferers from this policy. No such policy has ever been undertaken and as a matter of fact there has been during the past year an increase and not a reduction in the net volume of bank credit and currency. There has been no policy looking towards a broad curtailment or deflation of credit but efforts have been made to correct abuses and to bring about moderation and better judgment in the use of credits which a year ago were being diverted into all kinds of speculative and non-productive channels. Efforts have been made also to conserve the resources and credit power of the member banks and of the Federal reserve banks in order that they might better respond to the seasonal needs occasioned by the harvesting of the crops.

I do not wish to burden you with statistics, but in order to correct wrong impressions I desire to call your attention to the following. On September 19, 1919, the total earning assets of all Federal reserve banks were in round amounts $2,350,000,000, while on January 27, 1920, the total was nearly $3,300,000,000, an increase of almost $1,000,000,000, or nearly 50% within a period of four months. There is no banking system strong enough to sustain itself very long at so rapid a rate of expansion of credit, and while no drastic deflation was attempted, measures were taken to regulate the credit expansion. Discount rates were advanced and this action brought about a moderate amount of liquidation, the earning assets of the Federal reserve banks being reduced in the course of sixty days by about $100,000,000. By the middle of May, however, the total loans and investments of the Federal reserve banks approached again their previous high level and the Board called the attention of the banks and the public to the importance of marketing the crops of 1919 before those of 1920 were harvested, and of reducing borrowings at the Federal reserve banks until the seasonal requirements of the autumn should develop. Banks were advised in cases where it should become necessary for them to discriminate in the matter of making loans to give preference to essential credits, which included all credits related to legitimate productive activities, and they were told at the same time that they themselves must be the judges of the essential character of the purposes for which loans were asked of them.

On July 23rd, just before the crop moving demands began to be felt, the total loans and investments of the Federal reserve banks had declined from the high point about $150,000,000, and stood around $3,150,000,000. Since that date they have advanced steadily with occasional slight recessions until December 3rd when the total amount reached $3,333,792,000, as compared with $2,933,082,000 on December 5, 1919. Federal reserve notes in circulation on December 3, 1920 amounted to $3,312,039,000, as against $2,881,359,000, on December 5, 1919. You will see therefore that as far as the Federal reserve banks are concerned, no contraction of credit or currency has been had during the past twelve months, but on the other hand there has been an increase in Federal reserve bank credit of $400,000,000 and in currency of $430,000,000.

You are, however, most interested in knowing to what extent credit has been available for agricultural purposes. It will be impossible to give precise information on this point until the reports recently called for by the Comptroller of the Currency from national banks have been tabulated and the digest made public. The Comptroller has asked each national bank for a statement both of direct and indirect loans to farmers. The Federal reserve banks in agricultural districts have been rediscounting heavily for several months past with Federal reserve banks in the industrial districts. Three banks, the Federal reserve banks of Boston, Philadelphia and Cleveland, have advanced at times as much as $250,000,000 to seven other Federal reserve banks, whose districts are largely agricultural. The total amount of bills discounted by Federal reserve banks in distinctly agricultural districts is about $1,500,000,000. Early in the season Federal reserve banks in these districts were asked to estimate the proportion of their total loans directly in support of the agricultural and livestock interests. The estimates for September, 3, 1920 were as follows: Federal Reserve Bank of Richmond, 27.3%; Atlanta, 23.7%; Chicago, 48.3%; St. Louis, 22%; Minneapolis, 65.6%; Kansas City, 59.8%; Dallas, 50% and San Francisco, 58.7%. In some of these banks the proportion of agricultural paper held is much greater now than on September 3rd. It is certain that there has been no curtailment of agricultural credits by the Federal reserve banks and while, as I have stated, exact figures of member bank transactions are not yet available, it seems reasonable to assume that there has been a very large volume of credit extended by member and non-member banks in support of the agricultural interests.

Senator Owen has recently called attention to the fact that "The individual deposits of New York City banks, which were November 12, 1919, $6,313,998,000, were reduced on November 10, 1920, to $4,916,375,000, a net loss of deposits in New York City of about $1,400,000,000, and a net reduction of loans amounting to a similar amount", and that "While the individual deposits and loans of New York City banks were coming down, the total deposits of all the banks of the country, including bank deposits, increased according to the Comptroller's letter of October 13, 1920, $4,045,164,000, and loans increased $5,805,736,000 (including overdrafts and discounts) for the fiscal year ending June 30th, 1920."

I am a firm believer in the policy of gradual and orderly methods of marketing our great agricultural staples. All will agree that agriculture is the basic and fundamental industry, for upon its fruits depend the lives of those engaged in all other industries. The farmer is a great consumer of manufactured products and anything that effects his buying power is soon reflected in the business of the merchant and manufacturer. Conversely a depression in manufacturing and other lines of business is reflected in the reduced demand for farm products. I cannot conceive of anyone questioning the fact that farming as a business must be remunerative or production will languish. It is highly desirable that the efforts of the farmer be supported and stimulated in every proper way and that he be aided in preserving the full measure of his harvests and that he be given an opportunity of marketing his products on terms sufficiently profitable to warrant his staying in the business of farming. It is well to consider, however, that in other lines of business, profits are not always continuous. This is also true with respect to farm industry. The farmer, however, as a rule, has only one turnover a year, while those engaged in other enterprises have the advantage of more frequent turnovers. Great staple crops, the production of which extends over a period of several months must meet the requirements of consumption until the next season's crops are produced. In order to prevent possibility of shortage, it is desirable that there be a certain surplus held over from one crop pending the marketing of the next. It is important, however, that the surplus held over be not too large or unwieldy, for the marketing of a crop and a half when the ordinary requirements call for only one crop means a loss unless an unforseen abnormal demand should develop. The gradual and orderly marketing of great staple crops is a matter of importance both to producer and consumer. The dumping upon the market within a short period of time of a large part of a crop, the consumption of which extends throughout the year, means not only loss to producers, often to those who can least afford it, but involves also a great strain upon our transportation facilities and upon the banks in providing the funds necessary for large purchases in advance of actual requirements for consumption. The dumping of farm products promotes speculation and usually results in higher prices to the ultimate consumer.

I take this occasion to say that the members of the Federal Reserve Board have a keen sympathy for the farmers in their present predicament and are desirous of doing everything they can legitimately and properly to help them. It is impossible, however, for any banking system to provide funds for withholding all staple crops entirely from the market for any length of time. The volume of our great staple crops is so large and their value so great that any efforts to valorize them by means of bank credits would inevitably result in disaster to the community in general and to the farmer especially. Orderly marketing means marketing; it means steady sales and steady purchases. Gradual sales make possible the gradual liquidation of debts, and as the maturity of so many obligations synchronizes with the marketing of staple crops, it is probably no exaggeration to say the liquidation of a million dollars of farmers' indebtedness means the liquidation of four or five millions dollars of general debts. Your convention will no doubt consider means of preventing in future a repetition of present conditions. I assume that you will consider cooperative marketing, greater diversification of crops, and the maturing of farmers obligations over periods extending from October to March. I suggest also that you do not overlook the importance of minor crops as a means of giving the farmer an additional turnover. I assume also that you will consider the processes of marketing and ascertain why in many cases commodities which are sold by the farmer at less than the cost of production are sold to the ultimate consumer at high prices. I am aware also that there is much apprehension on the part of farmers as to their current indebtedness. The present crops were produced at abnormally high costs and many farmers, no doubt, have stuff on hand for which there is now no ready market, or which cannot be sold for enough to liquidate their debts. Such a situation calls for the closest cooperation between the farmer, and the merchant and banker with whom he deals. I have no authority to speak for the banking business in general, but I do know that as a rule the banker realizes that the welfare of his own institution depends upon the prosperity of the community in which his bank is located. The average banker is averse to foreclosures or other drastic methods of liquidating indebtedness, except as a last resort, and my opinion is that if the farmer will go to his banker or merchant creditor and make a frank statement of his condition, giving additional security if available and if required, and agree to make gradual sales of his produce as the market develops, applying the proceeds on his indebtedness, he will be able to make arrangements for present pressing needs and for requirements for another season. Many farmers have had this experience in years when there has been a crop failure. This is a year of physical plenty and the farmers' troubles arise from price derangements. The decline in prices of all agricultural staples has been very marked, and some may not be salable in the present circumstances at any price. Such commodities, of course, must be carried over for account of some one and they had better be carried for the account of the producer. Other staples can be sold at a price and gradual sales of these staples will, in my opinion, stabilize the entire situation. The resumption of activity on the part of woolen mills and cotton mills will revive the demand for wool and cotton, and the continued employment of labor will stimulate the demand for foodstuffs and all other farm products.

I shall not undertake to predict the course of prices but I will say that prices are relative and that barring shortages prices of all commodities and goods tend in the long run to rise and fall together. While the decline in prices of the goods the farmer has to buy has not been commensurate with the slump which has taken place with respect to his own products, there is every reason to believe that within a short time these inequalities will adjust themselves - either the price of farm products will advance or the price of other goods will decline. Thus in the event that there is no substantial improvement in the price of farm products, it seems certain that the cost of producing next year's crops will be greatly reduced.

While it is true that the greater volume of our staple crops and the larger part of our manufactured goods are consumed at home, the maintenance of our export trade is of the greatest importance to farmers and manufacturers, for ability to dispose of surplus products abroad is a potent factor in the determination of the price at which goods are sold at home. The great need of the world today is peace and revival of the industries of peace, the reestablishment of trade relations between the nations, and in my judgment the surest means of relieving present conditions permanently lies in the development of our foreign trade upon a basis of assured permanency. This subject is too complex to admit of its discussion here, but I refer to it merely to emphasize the fact that the farmer is vitally effected by things which lie beyond his own horizon. All these matters are pressing for solution and are being considered by those in administrative and legislative authority and by banking and trade organizations all over the country. In the meantime it is most desirable that there be no feeling of undue depression or dispair. Remember that things are not as bad as they seem and that a morale which it is so necessary for an army to maintain in a military campaign is just as essential in fighting against industrial and business depression. Let us look on the bright side and take care before advocating measures which may seem to hold out promise of temporary relief to consider their ultimate results. One of the most effective utterances of the President-elect during the recent campaign was his statement that he favored "More business in Government and less Government in business". We must remember that war-time measures are not generally adapted to peace conditions; but no matter what the course of legislation may be, the solution of our economic and financial problems will depend mainly upon individual effort, and calls for good judgment and forbearance, self-reliance and cooperation, and a display of courage and optimism, which after all, is really justified by fundamental conditions.

PRICE REDUCTION OF IMPORTED ARTICLES

That the fall in prices, which has recently become pronounced in the United States is not confined to this country, but is well nigh world wide in its operation may be seen from an examination of monthly average import prices of commodities entering the United States. These figures, a summary of which for the most important commodities is presented below, are based on the wholesale price of articles in the markets of the countries from which they are imported:

Monthly average import prices of selected articles.

Article	Unit	1919 September	1919 December	1920 March	1920 June	1920 September	1920 October	Principal Country from which imported.
Cocoa, crude	pound	$ .184	$ .156	$ .179	$ .168	$ .116	$ .117	British West Africa and Ecuador
Coffee	"	.24	.223	.215	.206	.166	.164	Brazil, Central America and Colombia
Hemp	ton	582.25	338.90	430.50	456.66	545.60	475.79	Philippines
Jute and jute butts	"	96.88	180.40	113.65	122.12	51.80	77.55	India
Manila	"	225.90	237.93	300.80	348.71	292.58	310.62	Philippines
Sisal grass	"	295.00	207.66	214.17	202.21	150.14	125.98	Mexico
Calf skins	Pound	.497	.577	.632	.561	.387	.364	France, Dutch East Indies and India
Cattle hides	"	.33	.363	.354	.341	.258	.222	Argentina, Canada
Goat skins	"	.776	.366	1.21	1.19	.994	1.07	China and British India, Brazil
India rubber	"	.372	.452	.453	.458	.393	.367	India and Brazil
Olive oil	Gallon	2.13	2.16	2.54	3.26	3.01	3.11	Spain, Italy and France
Paper, newsprint	pound	.0355	.0363	.0421	.0431	.0512	.0552	Canada
Silk, raw	"	8.04	9.61	12.28	9.99	6.56	6.42	Japan and China
Sugar cane	"	.0555	.0651	.0832	.1611	.1501	.1395	Cuba
Tea	"	.257	.241	.243	.305	.264	.266	Japan, India and China
Tin	"	.534	.541	.566	.615	.551	.522	Straits Settlements
Pulp, wood	Cord	10.53	9.85	10.35	14.12	14.61	14.93	Canada
Wood pulp, unbleached	ton	73.70	76.85	77.80	114.83	142.10	148.98	Canada and Sweden
Wool, clothing	pound	.473	.553	.663	.659	.437	.433	Argentina, Uruguay, United Kingdom, Australia and British South Africa.

Appendix "A"

Decided reductions are shown for many articles of food. Cocoa, for instance, worth about 18 cents a pound in September of last year was valued at less than 12 cents a pound in September and October of this year. Coffee dropped in price from 24 cents in September, 1919, to 16.4 cents in October, 1920;,cane sugar, valued at 5.5 cents a pound in September of last year, rose to 16.1 cents of June of the present year, but dropped below 14 cents in October; since that time a further precipitate fall is known to have occurred and the November price of sugar will be likely to be only a little higher than a year ago. The price of olive oil, on the other hand, was $3.01 per gallon last October, as compared with $2.13 in September, 1919. The October price, however, is 15 centa a gallon lower than the peak price shown for June. Tea is also somewhat more expensive than a year ago, but its price of 26.6 cents a pound in October marks a perceptible recession from last June, when the average was 30.5 cents a pound.

Notable declines in price are shown for hemp, which was valued at $475.79 a ton in October, compared with $545.60 in September of this year, and $582.25 in September, 1919, for sisal grass, and for cattle hides, while goats skins have advanced in price from 77.6 cents a pound in September of last year to $1.07 a pound in October of this year. Rubber was somewhat cheaper than a year ago, and twenty per cent cheaper than last July. Raw silk, which had risen to $12.12 a pound last March, had dropped to $6.42 a pound in October, and wool, which also was at its maximum price in March, when it averaged 66.9 cents a pound, had dropped to 43.3 centa a pound in October.

Among the principal commodities, for which advances in price are shown is jute, which rose from $51.80 a ton in September to $77.55 a ton in October, but is still far below its maximum price in June and below the price shown for September, 1919; in view of the very poor jute crop reported from India, it is possible that a further advance in the price of jute will take place. The largest and most consistent price advances are shown for paper and the raw materials from which it is manufactured. Paper rose from 3.5 cents a pound in September, 1919, to 5.5 cents in October of this year; pulp wood rose from \$10.53 to \$14.93 a cord, and wood pulp from \$73.20 to \$148.98 a ton during the same period. In the case of paper, a growing world-wide demand combined with a decreasing supply of raw materials, results in a price movement at variance with the general downward trend.

A column is added in the table indicating the principal countries from which each article is imported and thus emphasizing the fact that the price movement under discussion encircles the world.

FEDERAL RESERVE BOARD

WASHINGTON

December 8, 1920.

X-2084 a

Dear Sir:

The Federal Reserve Board has made arrangements to issue the "brief edition" of the Federal Reserve Bulletin on or about the first of each month. Accordingly, the mimeographed statement of "business conditions" as published in the Bulletin, which the Board has been forwarding to you monthly, will be discontinued. A copy of the brief edition, December issue, is enclosed, and as member of the Federal Advisory Council, you will receive copies of this edition regularly as published.

Very truly yours,

Enclosure.

R.G. Emerson.
Assistant to Governor.

To members of Fed. Adv. Council.

FEDERAL RESERVE BOARD

WASHINGTON

December 9, 1920.
X-2086

Subject: Wrapping and marking of first class mail.

Dear Sir:

There is enclosed herewith, for your information and such action as you deem necessary, copy of letter to the Board from Honorable J.C. Koons, First Assistant Postmaster General, and also copy of letter addressed to the First Assistant Postmaster General by the Baltimore local postmaster, with reference to the insecure and insufficient wrapping and marking of first class mail packages containing checks sent through the mails between Federal Reserve Banks and Branches and their correspondents.

Very truly yours,

R.G. Emerson
Assistant to Governor.

Enclosures.

To Chairmen of all F.R. Banks.

X-2086 a

COPY

POST OFFICE DEPARTMENT
First Assistant Postmaster General
WASHINGTON

December 4, 1920.

Federal Reserve Board,
Treasury Department.

Gentlemen:

There is enclosed a copy of a letter dated November 29 from the postmaster of Baltimore, Maryland, calling attention to the fact that the envelopes or wrappers containing packages of checks, etc., sent by Federal Reserve Banks, branches amd correspondents, are usually of such size and character that they are easily mistaken for parcel post mail, and suggesting that an order be issued for the proper wrapping of such packages and labeling "first class" in conspicuous letters in order that there may be no delays in the handling of such mail.

As you are undoubtedly aware, when congestion occurs at any point in the postal service preference in handling is always given to first-class matter, and as it will unquestionably serve to prevent vexatious and expensive delays, the suggestion of the postmaster of Baltimore is fully approved by the Department, and your earnest cooperation in the matter will be appreciated.

Respectfully,

(Signed) J. C. KOONS.

First Assistant Postmaster General.

COPY X-2086 b

Baltimore, Maryland.
November 29, 1920.

First Assistant Postmaster General,
Division of Post Office Service,
Washington, D.C.

The envelopes, or wrappers, containing shipments of checks between the Federal Reserve Banks, branches and their correspondents, are frequently larger than ordinary letters, and, in some instances, they are wrapped so poorly and put up in such shape that they are easily mistaken for parcel post mail. One instance that came under my observation was that of a large package of checks from the Federal Reserve Bank of Saint Louis, to the Federal Reserve Bank of New York, which was missent to Baltimore, Maryland, in a sack of parcel post mail, and again, recently, the Federal Reserve Bank of Baltimore complained of the delay of two hours in the receipt of a large package of checks coming from Philadelphia, Pennsylvania; the delay, I believe, was due to its being treated as a parcel post package.

I have to offer the suggestion, if it meets with your approval, that the Federal Reserve Board be induced to issue a general order to the regional banks and their branches and also request that they, in turn, ask their correspondents, whenever a package of checks is unusually large, that the envelope or wrapper be printed or stamped conspicuously "First Class". This, I believe, will prevent the mistreatment, to a large extent, of such mail in future.

(Signed) SHERLOCK SWANN

Postmaster.

TREASURY DEPARTMENT
WASHINGTON

December 6, 1920.

The Governor,
Federal Reserve Board.

Sir:

By direction of the Secretary, you are advised that the Department has referred to the Auditor for the Treasury Department for settlement the account of the Bureau of Engraving and Printing for preparing Federal Reserve notes during the period November 1 to November 30, 1920, amounting to $312,561.15, as follows:

Federal Reserve Notes, 1914.

	$5	$10	$20	$50	$100	Total
Boston............	402,000	395,000	97,000	---	---	894,000
New York..........	534,000	461,000	135,000	---	---	1,130,000
Philadelphia......	191,000	171,000	167,000	5,000	---	534,000
Cleveland.........	334,000	237,000	211,000	19,000	4,000	805,000
Richmond..........	287,000	234,000	10,000	---	---	531,000
Atlanta...........	44,000	25,000	11,000	---	---	80,000
Chicago...........	575,000	305,000	92,000	1,000	---	973,000
St. Louis.........	319,000	149,000	43,000	---	---	511,000
Minneapolis.......	37,000	12,000	21,000	---	---	70,000
Kansas City.......	34,000	10,000	---	---	---	44,000
Dallas............	32,000	30,000	---	---	---	62,000
San Francisco.....	415,000	74,000	48,000	---	---	537,000
	3,204,000	2,103,000	835,000	25,000	4,000	6,171,000

6,171,000 sheets at $50.65 .... $312,561.15

The charges against the several Federal Reserve Banks are as follows:-

	Sheets	Compensation.	Plate Printing	Materials	Inc.Compensation	Total
Boston..........	894,000	$15,019.20	$14,035.80	$12,167.34	$4,058.76	$45,281.10
New York........	1,130,000	18,984.00	17,741.00	15,379.30	5,130.20	57,234.50
Philadelphia....	534,000	8,971.20	8,383.80	7,267.74	2,424.36	27,047.10
Cleveland.......	805,000	13,524.00	12,638.50	10,956.05	3,654.70	40,773.25
Richmond........	531,000	8,920.80	8,336.70	7,226.91	2,410.74	26,895.15
Atlanta.........	80,000	1,344.00	1,256.00	1,088.80	363.20	4,052.00
Chicago.........	973,000	16,346.40	15,276.10	13,242.53	4,417.42	49,282.45
St. Louis.......	511,000	8,584.80	8,022.70	6,954.71	2,319.94	25,882.15
Minneapolis.....	70,000	1,176.00	1,099.00	952.70	317.80	3,545.50
Kansas City.....	44,000	739.20	690.80	598.84	199.76	2,228.60
Dallas..........	62,000	1,041.60	973.40	843.82	281.48	3,140.30
San Francisco...	537,000	9,021.60	8,430.90	7,308.57	2,437.98	27,199.05
	6,171,000	103,672.80	96,884.70	83,987.31	28,016.34	312,561.15

The Bureau appropriations will be reimbursed in the above amount from the indefinite appropriation "Preparation and Issue of Federal Reserve Notes, Reimbursable", and it is requested that your Board cause such indefinite appropriation to be reimbursed in like amount.

Respectfully,
S. P. Gilbert, Jr.
Assistant Secretary of the Treasury.

FEDERAL RESERVE BOARD

WASHINGTON

December 11, 1920.
X-2089

Subject: List of Officers and Employees of Federal Reserve Banks as of January 1, 1921.

Dear Sir:

Since several of the Federal Reserve Banks have discontinued the plan of adjusting salaries of officers and employees as of January 1 and July 1 of each year, the Board will not prescribe a uniform method for submitting recommendations as of January 1, 1921, but desires that those banks which still continue to adjust salaries semi-annually follow the form as outlined in the Board's letter of December 2, 1919, X-1739.

It is the Board's desire, however, that all Federal Reserve Banks submit a statement as of January 1, 1921, giving the following information:

Department

Date of Employment	Name	Position	Present Annual Salary

This list should show all employees of each department, including the War Savings Organization and the Fiscal Agency Department, and employees not assigned to any particular department. In those cases where salaries are reimbursable, either in whole or in part, by the Treasury Department, it is requested that note be made to this effect.

Also, please show on a separate sheet a recapitulation by departments, giving the following information:

Department	Number of Employees	Total Annual Salary

This recapitulation should be footed and show grand totals.

In addition to the foregoing information the Board desires that you submit an additional memorandum covering the duties assigned to each officer of the Bank and the departments which are operated under his general supervision or immediate direction; also a description of the duties of employees receiving salaries of $3,000 or more per annum, who are engaged in special work for the Bank but who are not assigned to any particular department, stating the rate of compensation, and whether or not the employee devotes his entire time to the work of the Reserve Bank.

The Board desires further that the memorandum include a brief description covering the scope of the work of each department, its subdivisions, the name of the officer or employee in charge of each department or subdivision, the names of his principal assistants, and the name of the officer of the Bank who has general supervision of the operation of the department. To secure uniformity, it is suggested that this information be furnished in accordance with the attached form.

Very truly yours,

Governor.

Enclosure.
(X-1561a)

To Chairmen of all F.R. Banks.

X-1561a

DEPARTMENT: Discount Department

SCOPE: General, but brief description of the work of the department.

GENERAL SUPERVISION:

____
Deputy Governor.

IMMEDIATE SUPERVISION:

____
Assistant Cashier.

MANAGER:

____

ASSISTANT MANAGER:

____

DIVISIONS:	In Charge	Assistant
Loans to member banks, unsecured	____________	____________
Loans to member banks, Government collateral	____________	____________
Member bank promissory notes	____________	____________
Acceptances purchased	____________	____________
Rediscounts with or for other Federal Reserve Banks	____________	____________
Custody of collateral	____________	____________
Records	____________	____________

FEDERAL RESERVE BOARD

WASHINGTON

X-2090

December 16, 1920.

SUBJECT: ASSESSMENT FOR GENERAL EXPENSES OF THE FEDERAL RESERVE BOARD, JANUARY 1 TO JUNE 30, 1921.

Dear Sir:-

There is inclosed herewith for your information and attention copy of a resolution adopted by the Federal Reserve Board at a meeting held on December 16, 1920, levying an assessment upon the several Federal Reserve Banks of an amount equal to twelve hundredths of one per cent (.0012) of the total paid-in capital stock and surplus of such banks to defray the estimated general expenses of the Federal Reserve Board from January 1 to June 30, 1921.

There is also inclosed a statement showing the basis upon which the assessment is levied.

The assessment should be computed upon your paid-in capital and surplus as of close of business December 31, 1920, that is, upon capital paid-in as shown by your books on that date, and surplus after adjustment in accordance with circular letter St.1641, dated December 11, 1920.

I have the honor to request that you bring this matter to the early attention of the Board of Directors of your bank, and deposit one half of the amount of your assessment in the General Account, Treasurer, U. S., on your books on January 1, 1921, and one-half on March 1, 1921, in each instance issuing a C/D on Form 1, National Banks, for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", assessment for general expenses.

Kindly send duplicate C/D to Federal Reserve Board, together with a statement of your capital and surplus used as a basis for the assessment.

Very truly yours,

Fiscal Agent.

Inclosures.

X-2090a

RESOLUTION LEVYING ASSESSMENT

Whereas, under Section 10 of the act approved December 23, 1913, and known as the Federal Reserve Act, the Federal Reserve Board is empowered to levy semi-annually upon the Federal Reserve Banks in proportion to their capital stock and surplus an assessment sufficient to pay its estimated expenses, including the salaries of its members, assistants, attorneys, experts, and employees for the half year succeeding the levying of such assessment, together with any deficit carried forward from the preceding half year; and

Whereas, it appears from estimates submitted and considered that it is necessary that a fund equal to twelve hundredths of one per cent (.0012) of the total paid-in capital stock and surplus of the Federal Reserve Banks be created for the purpose hereinbefore described, exclusive of the cost of engraving and printing of Federal Reserve notes; Now, therefore,

Be it resolved, That pursuant to the authority vested in it by law, the Federal Reserve Board hereby levies an assessment upon the several Federal Reserve Banks of an amount equal to twelve hundredths of one per cent (.0012) of the total paid-in capital and surplus of such banks as of December 31, 1920, and the Fiscal Agent of the Board is hereby authorized to collect from said banks such assessment and execute, in the name of the Board, receipts for payments made. Such assessment will be collected in two installments of one-half each; the first installment to be paid on January 1, 1921, and the second half on March 1, 1921.

ESTIMATE FOR JANUARY, 1921, ASSESSMENT.

Average monthly encumbrance for period, July 1, 1920, to December 31, 1920:		
Personal services, ...	$42,908.56	
Non-personal services, ...	20,546.60	$63,455
Estimated requirements for December, 1920, ...		67,696
Estimated monthly requirements, January to June, 1921:		
Personal services, ...	$50,200	
Non-personal services, ...	15,000	65,200
Estimated monthly decrease as compared with December, 1920 (Occasioned by completion of vault tests), ...		2,496
Total estimated requirements, January to July, 1921, inclusive,		391,200
Estimated unencumbered balance, December 31, 1920, ...		40,000
Amount to be raised by assessment, ...		351,200
Estimated paid-in capital and surplus of Federal Reserve Banks, as of January 1, 1921, ...		$294,000,000
An assessment of twelve hundredths of one per cent (.0012) will produce, ...		352,800

FEDERAL RESERVE BOARD

WASHINGTON

X-2091

December 17, 1920.

SUBJECT: Proposed Legislation Establishing a Maximum Federal Reserve Bank Discount Rate.

Dear Sir:

There is enclosed herewith for your information copy of a letter in reply to a communication from the Chairman of the Senate Committee on Banking and Currency, requesting an expression of the views of the Federal Reserve Board with regard to a bill recently introduced in the Senate which, if enacted, would fix the maximum rate of interest or discount which Federal reserve banks could charge member banks in any contract, agreement or any other financial transaction had with them at five per centum per annum.

Very truly yours,

Governor.

To the Chairmen and Governors of all F.R.Bs.

December 16, 1920;

Dear Mr. Chairman:-

You have requested the views of the Federal Reserve Board with regard to Senate Bill No. 4560, which, if enacted, would fix the maximum rate of interest or discount which Federal Reserve Banks could charge member banks in any contract, agreement, or any other financial transaction had with them at five per centum per annum.

The Federal Reserve Board desires to put itself on record as unalterably opposed to this bill or to any other bill which in any way attempts to limit the power now vested in it and in the Federal reserve banks to regulate the rates of discount which those banks may charge.

It is essential to the proper functioning of any central banking system that the central bank or banks of discount shall have complete control over their rates. This control over rates in normal times is the usual and most effective means of protecting the gold reserves of a country against withdrawals for foreign account, and in domestic transactions it insures the accummulation in normal times of a reserve sufficient to meet the seasonal and emergency demands of the central bank or banks. It is the general practice of central banks to fix their rates slightly above the market rates. This is particularly true of the Bank of England and in view of the frequent references which are made to this institution in public discussions it may be of interest to review its experience in the matter of discount rates since the passage of the Bank Act of 1844, as shown by the table on page 33 in a book entitled "Bank Rate and the Money Market" by R. H. Inglis Palgrave, F.R.S. The annual average bank rate of the Bank of England during the years 1845 to 1871, inclusive, was higher than the annual average market rate in sixteen of the twenty-six years and was lower than the annual average market rate in the other ten years, but from the year 1872 to the end of the period covered by the table, 1900, the average Bank rate was higher than the average market rate in every year. From 1900 down to the present time the average Bank rate has continued to be higher than the average market rate.

Up to the year 1833 the Bank of England was subject to the usury laws. In his book entitled "Essai Sur La Fondation Et L'Histoire de la Banque D'Angleterre, 1694 - 1844" Dr. A. Andreades, of the University of Paris, refers, on page 361, to the release of the Bank from the application of the usury laws and describes the conditions which led to this action by Parliament. The conditions then existing in England were not altogether unlike present conditions in this country, and it is noteworthy that instead of attempting to impost restrictions upon the Bank, Parliament liberalized its powers and relieved it from the old restrictions which had seriously impaired its efficiency in dealing with the situation.

In explanation of the fact that the discount rates of the Federal reserve banks are at the present time below the market rates it may be appropriate to quote the following from an address which I made to the American Farm Bureau Federation at Indianapolis on December 7, 1920:

> "Normally the discount rate of a Federal reserve bank should not control the rates at which member banks loan money to their customers. In the countries which have central banks there is a well-established policy that the central bank discount rate should be maintained at a figure slightly in excess of the current market rate. The wisdom of such a policy is apparent for it eliminates all consideration of profit in rediscount transactions and gives the central bank better control over its own reserves and causes the banks which deal with the public to rely to a greater degree upon their own resources in extending accommodations while still affording them an outlet for any undue accummulation of loans. Because of the exigencies of war financing, it has not been practicable for the Federal reserve banks up to this time to adopt this policy and as a rule Federal reserve bank discount rates are lower than the rates charged by member banks. It is believed that conditions are gradually adjusting themselves so that Federal reserve bank rates may be maintained at a level slightly higher than current rates not only without any disturbance to commerce and business but to their distinct benefit. In fact, this adjustment has already begun in some cities where member banks have reduced their rates on commercial paper".

The enactment of a law fixing the maximum rate to be charged by Federal reserve banks at five per cent would, of course, make it impossible to bring this necessary corrective principle into permanent operation, for it would be effective only at times when current market rates for money might fall below five per cent. The Board desires to call your attention to the fact that only three States - Illinois, Louisiana, and Michigan - have a legal rate of interest as low as 5% and in each of these States a higher contract rate is permissible - Illinois and Michigan, 7%, Louisiana, 8%. In thirty-two States the legal rate of interest is 6%; seven States have a legal rate of 7%, and in six States and in the District of Columbia the legal rate of interest is 8%. In eleven States - Arizona, Arkansas, Florida, Kansas, Minnesota, Nebraska, North Dakota, Oklahoma, Oregon, Texas and Wisconsin - a contract rate of 10% is allowed, and in ten other States - Colorado, Connecticut, Idaho, Montana, Nevada, New Mexico, South Dakota, Utah, Washington and Wyoming - 12% is the contract rate. In seven States - Georgia, Indiana, Iowa, Mississippi, Missouri, Ohio and South Carolina - having a legal rate of less than 8%, a contract rate of 8%, is allowed. Four States - California, Maine, Massachusetts and Rhode Island - permit any rate to be charged under contract, and in New York any rate agreed upon in writing is legal on collateral demand loans of $5,000 and over.

The theory that discount transactions should yield a profit to the member banks is a fallacy which owes its wide credence in part to the fact that the Federal reserve banking system, which has some of the attributes of a central banking system, is comparatively new, and partly to the abnormal times through which we have passed, the inevitable effects of which are now being experienced. The fact is, however, that the potential profits of the member banks should not be permitted to influence the determination of the Federal reserve bank rates. On the contrary, member banks should rely mainly upon their own resources in normal times in order that when seasonal and emergency demands do arise the reserves of the Federal reserve banks may be available to meet those demands and sufficient to prevent the emergencies from developing into panic conditions. In this connection your attention is invited to an editorial which appeared in the Dallas (Texas) Morning News of Friday, June 11, 1920, copy of which is enclosed herewith.

If Federal reserve bank rates were fixed at 5% at the present time there would undoubtedly be a very strong incentive to the member banks to utilize to the utmost the rediscount facilities of the Federal reserve banks, because in an 8% money market there would be a spread of 3% between that rate and the Federal reserve bank rate which would represent a profit to be derived by the member banks on rediscount transactions. In states which have no important financial centers but in which rates as high as ten and twelve per cent, are authorized by law, the incentive to rediscount with the Federal reserve banks would be even greater. It is the opinion of the Federal Reserve Board, confirmed by past experience, that the lowering of the Federal reserve bank rates to 5% would have but very little if any effect on the market rates which could not be fixed by legislative enactment but which are determined by the inevitable operation of the law of supply and demand. Nor are banks generally inclined - particularly banks in agricultural sections - to give their customers the benefit of Federal reserve bank discount rates. It should be borne in mind also that with Federal reserve bank rates at 5% the incentive to speculation would increase the demand for credit and the net result would be that borrowers for legitimate commercial and agricultural purposes would find it difficult and expensive to obtain credit. Ultimately, of course, the limit of expansion would be reached, and in the Board's opinion it would be reached within a very short time, for it must not be forgotten that there are about $25,000,000,000 of Government obligations available as collateral for loans eligible for rediscount by Federal reserve banks. If the limit of expansion should be reached, the Board believes that a condition of depression infinitely more serious and more widespread than that now existing would follow.

The Board calls the attention of the Committee to the fact that the bill under consideration would operate as a repeal of the provisions of Section 11 (c) of the Federal Reserve Act which require the Federal Reserve Board to impose a graduated tax upon a Federal reserve bank whenever its reserves fall below a specified minimum, the Federal reserve bank being required "to add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board". If the bill under consideration were enacted, five per cent would be the maximum rate a Federal reserve bank could charge even if its reserves were rapidly dwindling to the vanishing point.

In conclusion and by way of summary, if this bill should become a law it is the Board's firm belief that the Federal reserve banks would find it impossible while functioning in a normal way to protect their gold reserves, that the Federal reserve system would within a very short time cease to be in any sense a reserve system and would become a mere instrument for the acceleration and perpetuation of expansion, and that a wholesale scramble for the funds of the Federal reserve banks would ensue which would leave those banks only two alternatives - one, to lend their funds at the rate prescribed until the exhaustion of their reserves had been completed, and the other to fix a definite limit upon their total volume of loans, thus adopting a rigid system of credit rationing. In the one case they would reach a point where they would be unable to make further rediscounts no matter how insistent or meritorious the demands might be, and in the other they would find it necessary to place all applications for discount accommodations on a waiting list until repayment of prior loans made new funds available.

Very truly yours,

W. P. G. HARDING

Governor.

Hon. George P. McLean, Chairman,
Committee on Banking and Currency,
United States Senate.

WHEREAS the Department of State on July 7, 1920, made the following announcement:

"The restrictions which have heretofore stood in the way of trade and communication with Soviet Russia were today removed by action of the Department of State. Such of these restrictions, however, as pertain to the shipment of materials susceptible of immediate use for war purposes will, for the present at least, be maintained.

"Political recognition, present or future, of any Russian authority exercising or claiming to exercise governmental functions, is neither granted nor implied by this action. It should be emphasized, moreover, that individuals or corporations availing themselves of the present opportunity to trade with Russia will do so on their own responsibility and at their own risk. The assistance which the United States can normally extend to its citizens who engage in trade or travel in some foreign country whose government is recognized by the United States can not be looked for in the present case, since there is no official or representative Russian authority with which this Government can maintain those relations usually subsisting between nations.

"The action which the United States is now taking in no wise constitutes a recognition of the validity of industrial or commercial concessions granted by any existing Russian authority. American citizens availing themselves of the present relaxation of restrictions are warned against the risks incident to the acceptance of commodities or other values, the title to which may later be brought into question.

"The situation which at present prevails, relative to travel from or to Russia, will be unaffected by the removal of trade restrictions. Passports for Russia can not be issued, nor will any change be made in the visa regulations now in force.

"Since it is not desirable at this time to undertake negotiations with the Soviet Postal authorities, the Post Office Department will be unable to accept mail from or to Soviet Russia. There has never been any parcel post convention between the United States and Russia and this mode of forwarding goods is, therefore, unavailable."

AND WHEREAS all restrictions imposed upon the export of coin, bullion and currency from the United States to certain specified countries were removed by Proclamation of the President on June 26, 1919, except as to that part of Russia under control of the so-called Bolshevik government, which Proclamation continued in force all prohibitions against dealings or exchange transactions in Russian rubles, transfers of credit, or exchange transactions with that part of Russia under the control of the so-called Bolshevik government to the extent deemed advisable by the Secretary of the Treasury and the Federal Reserve Board,

THEREFORE BE IT RESOLVED by the Federal Reserve Board that in view of the fact that the Department of State has removed the restrictions which have heretofore stood in the way of trade and communication with Soviet Russia and has advised that in order to make its action of force and effect the present restrictions on credit and exchange transaction should be removed, the Federal Reserve Board, concurrently with the Secretary of the Treasury announces that all rules and regulations issued or prescribed in connection with such transactions are hereby suspended for the time being.

FEDERAL RESERVE BOARD

WASHINGTON

X-2093

December 20,1920.

Subject: Payment of Extra Compensation to Employees.

Dear Sir:

In connection with the payment to its employees of extra compensation for the last six months of the present year, one of the Federal Reserve Banks has advised the Board that it proposed at the time of making such payment to inform each employee that it is possible that the reduction in the cost of living in the immediate future will be such as not to justify extra compensation hereafter and that employees of the bank should not expect a continuance thereof.

It seems to the Board that there is sound basis for this action on the part of the Federal Reserve Bank in question, and it is calling your attention to the matter with the request that it be advised of what consideration, if any, your directors have given to the necessity of continuing your present practice of paying bonuses or extra compensation to employees of your bank.

Very truly yours,

Governor.

Chairmen and Governors of all F.R.Banks - EXCEPT PHILADELPHIA.

FEDERAL RESERVE BOARD

WASHINGTON

X-2094

December 20, 1920.

SUBJECT: Correction in Board's letter (X-2091)

Dear Sir:

Referring to Board's letter (X-2091), forwarding copy of Board's letter of December 16th to the Chairman of the Senate Committee on Banking and Currency, I would state that my attention has been called to the fact that while it was the law in Pennsylvania a few years past that any rate of interest agreed upon in writing was legal on collateral demand loans of $5,000 and over, this law was changed some time ago by an Act of the Legislature and at the present time the maximum rate of interest in Pennsylvania on loans of every character is 6%. It is requested, therefore, that in the copy of the letter to the Chairman of the Senate Committee on Banking and Currency forwarded to you, you strike out the words "and Pennsylvania", contained in the fourth line from the bottom of Page 2.

Very truly yours,

Governor.

Chairmen and Governors of all F.R.Banks

(Copy) X-2095a

December 21, 1920.

My dear Sir:

In compliance with the request made in your letter of December 14th, for information regarding the amount of actual agricultural paper rediscounted during the years 1919 and 1920 (to date), based on agricultural production and sales of the respective years, I have the honor to submit herewith copy of a tabular statement compiled from telegraphic data received from all Federal reserve banks, excepting the Federal Reserve Banks of New York and San Francisco. Figures from the Federal Reserve Bank of San Francisco have not yet been transmitted to the Board but will be sent you separately as soon as received. The Federal Reserve Bank of New York states that it has never classified its discounted paper with reference to industries represented by makers of notes rediscounted, and is, therefore, unable to furnish the information desired promptly, even approximately. In view, however, of the very small amount of farmers' paper discounted in the New York District, it is not believed the omission of the New York data seriously impairs the value of the statement.

Section 13 of the Federal Reserve Act provides that notes, drafts and bills drawn or issued for agricultural purposes or based on live stock, having a maturity of not longer than six months, are eligible for rediscount by a Federal reserve bank, the limit of maturity in all other cases being ninety days. The Federal reserve banks rediscount large amounts of agricultural paper which has a maturity of not exceeding ninety days, but such paper is classified with other paper of like maturity. Therefore, agricultural and livestock paper, as shown by the Federal reserve banks, applies only to paper having a maturity of longer than ninety days. The Board receives this information from day to day and the amount of agricultural and livestock paper under discount at each Federal reserve bank - that is, paper having a maturity of from ninety days to six months - is published each month in the Federal Reserve Bulletin. The special figures furnished by the Federal reserve banks in accordance with your request are in all cases estimates, no exact figures of the total volume of loans for agricultural purposes being available at the Federal reserve banks. In the first place, most of the borrowing at Federal reserve banks by member banks during the year 1919 and a considerable proportion of these borrowings during the current year has been in the form of the borrowing bank's own notes, secured by Government obligations or by commercial, industrial and agricultural paper. It is known that member banks in New YorkCity have made large loans to their correspondent banks throughout the country, and it is reasonable to suppose that part of the proceeds of such loans have been applied by the borrowing banks for agricultural purposes, but it is impossible to state the amount. The same is true with respect to loans made by member banks in Chicago, St. Louis, Minneapolis, Kansas City, New Orleans, and other financial centers throughout the country. Non-member state banks lend large sums in the aggregate for agricultural purposes, but as they have no dealings with the Federal reserve banks their loans to farmers are not reflected in the figures furnished by the Federal reserve banks, although it is a fact that all Federal reserve banks have been lending a large amount to member banks, which have in turn rediscounted paper for non-member banks. It should be borne in mind also, that the total amount of farmers' notes rediscounted by Federal reserve banks gives no indication of the amounts advanced by the Federal reserve banks to finance the production and sale of farm products, since large amounts advanced to member banks in other districts on commercial and industrial paper are used by these banks for loans to agricultural interests. Only the Federal Reserve Banks of Richmond, Atlanta, St. Louis and Minneapolis have taken account of loans of this character by increasing proportionately the amounts formally classed as farmers' paper.

In view of these facts, it is evident that the compilation transmitted herewith is valuable merely as indicating the increased amount of agricultural paper rediscounted by the Federal reserve banks for member banks during the year 1920 over the year 1919.

The Board transmits also a table prepared from figures published in the Federal Reserve Bulletin, showing the holdings by each Federal reserve bank on the last Friday in each month during the years 1919 and 1920 of paper classed by the Federal reserve banks as agricultural and livestock paper. This classification does not include anything but notes having a maturity of longer than ninety days. It will be noted that there has been a steady increase in these holdings since the beginning of the present year and that this increase has continued after October of the present year, while in 1919 normal reductions from the high September figures are shown during the months of October, November, and December. The increased holdings of agricultural paper by the Federal Reserve Bank of Boston during July and August of the present year represent in the greater part paper held under rediscount for other Federal reserve banks. The comment made regarding the incompleteness of the figures in the first table apply with equal force to the figures in the table showing the monthly holdings, which are exclusive of the Federal reserve bank holdings of non-agricultural paper, the proceeds of which may have been used by member banks to finance production and sales of agricultural staples.

Very truly yours,

(Signed) W. P. G. Harding,

Governor.

Hon. A. J. Gronna, Chairman,
Committee on Agriculture and Forestry,
United States Senate.

ESTIMATED AMOUNTS OF PAPER REDISCOUNTED WITH FEDERAL RESERVE BANKS BASED ON PRODUCTION AND SALES OF FARM PRODUCTS

Federal Reserve Bank:	1919	1920	REMARKS
Boston	$ 2,642,000	$ 4,979,000	These figures confined to farm and dairy loans and do not include large amounts advanced in cotton, wool and similar lines.
New York	No data		
Philadelphia	2,971,000	3,580,000	Figures are confined to strictly agricultural paper, omitting the paper of wool dealers, cotton merchants, produce dealers packers, agricultural implements, and fertilizer concerns.
Cleveland	612,000	(a) 1,753,000	Total agricultural and live-stock paper discounted. These figures do not reflect accommodation granted to agricultural interests as many members borrow on U.S. securities to afford accommodation to agricultural borrowers.
Richmond	102,000,000	325,000,000	Figures include estimated amount of commercial and industrial paper discounted the proceeds of which were used for agricultural purposes.
Atlanta	91,300,000	(a) 230,000,000	Same
Chicago	47,263,000	128,408,000	Figures represent amount of farmers' notes discounted. Actual amounts loaned for production and sale of farm products is much in excess of amounts given as sales of farm products are largely financed by commercial paper, also large amounts are loaned to banks on commercial paper or notes secured by U.S. obligations the proceeds of which are loaned for agricultural purposes either directly or through correspondent banks.
St. Louis	(a) 220,000,000	(a) 665,000,000	In addition a large part of loans on commercial and Government secured paper was unquestionably for benefit of farmers.
Minneapolis	75,000,000	225,000,000	
Kansas City	123,481,000	229,432,000	

1199

X-2095b

Federal Reserve Bank:	1919 :	1920 :	REMARKS
Dallas	$ 28,997,000	$ 44,911,000	Figures do not include member banks' collateral notes the proceeds of which were used for loans to agricultural interests.
San Francisco	35,000,000	122,000,000	Figures include total amounts of paper rediscounted during the two years based upon production and sales of farm products, excluding notes secured by government obligations. The Bank is unable to estimate the amounts of paper rediscounted which represents borrowings on account of production and sales during the preceding year.
Total for 11 Banks	$729,266,000	$1,980,063,000	

(a) Eleven months.

FEDERAL RESERVE BOARD
WASHINGTON
DECEMBER 21,1920.

TOTAL AMOUNT OF AGRICULTURAL AND LIVE STOCK PAPER, COMBINED, HELD BY EACH FEDERAL RESERVE BANK

ON THE LAST FRIDAY OF EACH MONTH SINCE JANUARY, 1919.

(In thousands of dollars)

Date 1919	Boston	New York	Phila.	Clevel.	Richm.	Atlanta	Chicago	St.Louis	Minn.	Kans.Cy.	Dallas	San Fran.	Total
January	-	158	173	117	2,344	2,229	9,367	185	1,870	19,584	15,373	7,601	59,001
February	-	159	124	75	3,014	2,632	9,346	224	1,276	20,817	17,915	8,335	63,917
March	1	191	53	151	3,252	2,699	10,385	438	1,059	23,016	18,008	8,120	67,373
April	-	170	52	152	3,304	2,789	10,264	455	1,371	21,613	18,831	7,880	66,881
May	-	223	78	152	3,143	3,011	2,344	615	2,836	19,430	18,694	8,465	58,991
June	-	305	96	129	3,086	3,471	2,376	759	3,336	27,832	18,149	8,717	68,256
July	2	288	266	105	2,826	3,836	1,499	806	3,332	26,539	15,880	8,225	63,604
August	-	159	104	52	3,039	4,836	4,479	713	3,228	17,938	14,298	9,055	57,901
September	-	148	57	36	3,225	5,273	5,835	749	3,111	19,454	15,124	7,193	60,205
October	22	217	86	69	1,568	3,068	9,890	625	5,327	19,132	10,404	5,067	55,475
November	48	199	72	269	558	1,438	13,144	562	5,867	20,498	5,794	4,101	52,550
December	61	286	138	269	449	841	12,783	294	6,855	20,022	4,450	4,620	51,068
1920													
January	46	287	177	190	369	693	11,603	295	9,503	21,878	4,637	7,227	56,905
February	29	274	155	162	533	667	12,010	389	12,327	26,091	4,833	9,725	67,195
March	36	302	190	186	689	1,171	15,069	676	10,738	27,746	6,165	11,697	74,665
April	3	396	196	309	1,317	2,127	21,562	2,559	15,284	35,398	11,587	15,644	106,382
May	-	514	252	429	2,646	4,390	25,840	3,384	26,348	38,396	16,242	22,250	140,691
June	13	624	281	409	4,581	7,130	27,706	4,255	30,370	42,697	22,098	27,874	168,038
July	5,091	459	328	588	7,887	13,319	25,812	5,818	43,134	36,353	28,552	35,179	202,520
August	2,240	224	265	765	9,273	18,051	21,908	5,738	55,815	34,019	29,502	38,478	216,278
September	-	140	261	806	10,091	18,465	21,060	6,618	61,472	37,858	31,711	35,942	224,424
October	-	76	272	862	9,392	19,233	33,768	8,063	61,036	46,036	30,331	31,580	240,649
November	119	103	297	777	8,481	18,970	41,430	5,864	67,831	43,958	28,647	29,122	245,599
December													

Federal Reserve Board, December 21, 1920.

FEDERAL RESERVE BOARD

WASHINGTON

December 22, 1920.
X-2096

SUBJECT: Revision of permits issued under the Clayton Act.

Dear Sir:

You are advised that the Federal Reserve Board has fixed April 1, 1921 as the date upon which to review existing permits to interlocking directors under the Clayton Act. The rulings made at that time will be effective July 1, 1921 in all cases where conditions involving substantial competition have developed since the issuance of the original permits.

You are requested to take up personally close cases in your District where the executive officers of banks have been granted permits to serve as directors in other banks with a view to the voluntary correction of the dual capacity in such cases, at the January meetings of stockholders.

Very truly yours,

Governor.

LETTER TO ALL FEDERAL RESERVE AGENTS.

FEDERAL RESERVE BOARD

WASHINGTON

X-3000

December 23, 1920.

SUBJECT: Shipping Documents to be Furnished to Bank Accepting Drafts Growing Out of Export or Import Transactions.

Dear Sir:

Sub-division (b) (1) of Section B of Regulation A of the Board's Regulations, Series of 1920, relating to the eligibility of bankers' acceptances, growing out of export or import transactions, provides in part as follows:

> "While it is not necessary that shipping documents covering goods in the process of shipment be attached to drafts drawn for the purpose of financing the exportation or importation of goods, and while it is not essential, therefore, that each such draft cover specific goods actually in existence at the time of acceptance, nevertheless, it is essential as a prerequisite to eligibility either (a) that shipping documents or a documentary export draft be attached at the time the draft is presented for acceptance, or (b) if the goods covered by the credit have not been actually shipped, that there be in existence a specific and bona fide contract providing for the exportation or importation of such goods at or within a specified and reasonable time and that the customer agree that the accepting bank will be furnished in due course with shipping documents covering such goods or with exchange arising out of the transaction being financed by the credit".

The question has been raised as to the precise meaning of the term "shipping documents" as used in this provision of the Board's regulation, and the Board has ruled that the term includes an order bill of lading or a straight bill of lading, whichever is issued by the carrier in the particular case, but does not include freight receipts which the Board understands merely evidence the receipt of the goods but are not required to be returned to the carrier upon the delivery of the goods. The purpose of the requirement that the accepting bank shall be furnished with shipping documents is not merely evidentiary, but is also to put the accepting bank in possession of the documents which the carrier will require as a condition precedent to the delivery of the goods, in order that the bank may be in a position to protect itself by requiring that it be put in funds or furnished with other security when it releases the documents. The customer must, therefore, furnish the original bills of lading and the requirement of the regulation will not be satisfied by the furnishing of freight receipts or non-negotiable copies of the bills of lading. This, however, does not necessarily mean that the bills of lading must be sent to the accepting bank. The Board has ruled in connection with domestic acceptances that documents are legally in the possession of the accepting bank when they are held by its correspondent, or by some other independent party, as its agent, and the principle of this ruling can be applied in dealing with the shipping documents to be furnished to banks accepting drafts drawn in foreign transactions.

Yours very truly,

G o v e r n o r.

To Governors and Chairmen
of Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

X-3001

December 24, 1920.

Dear

In accordance with the plan of classifying and rating employees of the Board, made effective July 1, 1920, there is enclosed herewith a notice of your rating and relative standing in classification as based upon this rating, and your salary as of January 1, 1921, as approved by the Federal Reserve Board.

In behalf of the Board and its officers, I desire to express to you appreciation of the interest you have shown in carrying on your part of the work of the Board, and to wish you a very Merry Christmas and a Happy New Year.

Very truly yours,

R. G. EMERSON.

Assistant to Governor.

FEDERAL RESERVE BOARD

WASHINGTON

December 24, 1920.
X-3002

SUBJECT: Rights of National Banks to invest in the Stock of International Financial Corporations.

Dear Sir:-

The Federal Reserve Board recently has received a number of inquiries as to whether a national bank desiring to invest in the stock of corporations organized or to be organized under the provisions of the so-called "Edge Act", which constitutes Section 25(a) of the Federal Reserve Act, must make application to the Federal Reserve Board for permission to purchase such stock, and if so, whether such applications must be filed prior to January 1, 1921, in view of the provisions of the so-called McLean-Platt Amendment to Section 25. In order to correct certain misapprehensions which appear to have arisen in this connection, the Federal Reserve Board feels that it is advisable to set forth its interpretation of the pertinent provisions of Section 25 and Section 25(a).

Section 25, as amended September 7, 1916, and September 17, 1919, makes provision for the investment by national banks in the stock of certain kinds of international financial corporations organized under the laws of the United States or of any State thereof. Prior to the passage of the Edge Act, however, there was no provision for the incorporation of international financial corporations under the laws of the United States. In enacting the Edge Act, Congress has now provided a means for the incorporation of such corporations under Federal law, thus enabling national banks to exercise to the full extent the rights which were given to them by the amendments to Section 25. In addition to making provision for the organization of international financial corporations the Edge Act among other things expressly provides:

> "Any national banking association may invest in the stock of any corporation organized under the provisions of this section, but the aggregate amount of stock held in all corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended shall not exceed 10 per centum of the subscribing bank's capital and surplus."

It is evident, therefore, that this provision of Section 25(a) to some extent has modified the provisions of Section 25, so far as the right of national banks to invest in the stock of corporations organized under the laws of the United States is concerned.

Section 25 and Section 25(a) both contemplate two classes of international financial corporations, (1) international banking corporations engaged in granting ordinary short time commercial credits, and (2) international investment corporations engaged in granting long time credits and in issuing their own debentures secured by foreign securities. Section 25 authorizes a national bank with a capital and surplus of $1,000,000 or more to make application to the Board for permission to invest not to exceed 10 per centum of its capital and surplus in the stock of one or more corporations organized under the laws of the United States or of any State thereof and principally engaged in international or foreign banking; and the McLean-Platt Amendment of September 17, 1919 authorizes any national bank, irrespective of the amount of its capital and surplus, until January 1, 1921, to make application to the Board for permission to invest not to exceed 5 per centum of its capital and surplus in the stock of one or more corporations organized under Federal or State law and principally engaged in such phases of international financial operations as may be necessary to facilitate exports from the United States, i.e. international investment corporations as distinguished from international banking corporations. Section 25(a), however, without qualification, authorizes any national bank to invest in the stock of internationalfinancial corporations organized under that section, whether engaged in international banking or in the international investment business, provided, only, that the aggregate amount of stock held in all corporations engaged in the business of the kinds described in that section and section 25 does not exceed 10 per centum of the subscribing bank's capital and surplus.

It will be noted that the pertinent provision of Section 25(a) contains no such restrictions upon the powers of national banks to invest in the stock of international financial corporations as are found in Section 25, other than the provision with regard to the aggregate amount of stock which a national bank may hold in all such corporations. As the provision of Section 25(a) is limited to corporations organized under that section, this specific provision must be construed as superseding the more general restrictions in Section 25 as to the capital and surplus requirements of the subscribing bank and as to the amount which may be invested, the time limit and the phases of the international financial operations of the corporations in whose stock the national bank desires to invest, so far as investments by national banks in corporations organized under the laws of the United States are concerned.

In view of these considerations, it is clear that the January 1, 1921, limitation in the McLean-Platt Amendment restricting the right of national banks to make application to the Board only until January 1, 1921, does not relate to the right of a national bank to invest in the stock of an Edge corporation, whether the Edge corporation is organized for the purpose of engaging in international banking operations or in an international investment business. Similarly, the provision of the McLean-Platt Amendment which places a limitationof 5 per centum upon the amount which a national bank may invest in a corporation of the kind described therein has been modified by virtue of the provisions of Section 25(a) to the extent that a national bank may now invest not more than 10 per centum of its capital and surplus in a corporation organized under the laws of the United States irrespective of whether such corporation is organized to carry on a banking business or an investment business, provided that the aggregate amount of stock held in all corporations engaged in business of the kind described in Section 25(a) and in Section 25, whether organized under the Edge Act or under State law, does not exceed 10 per centum of the subscribing bank's capital and surplus.

In brief, under the present provisions of Sections 25 and 25(a) the situation after January 1, 1921, will be that any national bank, irrespective of its capital and surplus, may invest in the stock of any corporation organized under the provisions of Section 25(a) regardless of whether such corporation is a foreign banking corporation or a foreign investment corporation issuing its own debentures; that a national bank having a capital and surplus of $1,000,000 or more may invest in the stock of a State incorporated banking institution but may not invest in the stock of a State incorporated investment corporation; that a national bank having a capital and surplus of less than $1,000,000 may not invest in the stock of a corporation organized under State law whether that corporation is a banking corporation or an investment corporation; and that the aggregate of the investments of any national bank in the stock of corporations engaged in the business of the kind described in Sections 25 and 25(a) may not exceed ten per cent of the subscribing bank's capital and surplus.

The Board has ruled that a national bank which desires to invest in the stock of corporations such as are described in Section 25 and in Section 25(a) must make application to the Board for permission to subscribe to such stock irrespective of whether the corporation is to be organized under Section 25(a) or under State law. The Board will not consider an application by a national bank to subscribe to the stock of a corporation to be organized under State law until the corporation hasfiled an agreement with the Board to restrict its operations as the Board may require pursuant to the provisions of Section 25, and will not consider an application to subscribe to the stock of a corporation to be organized under Section 25(a) until the corporation has submitted its title to the Board for approval and reservation for thirty days pursuant to the Board's Regulation K, Series of 1920, and the Board has approved this title.

In the case of an Edge corporation which is in the process of organization, the Board has ruled that while it will consider an application after the approval of its title the Board will approve the application only upon the condition that the national bank shall not be authorized to pay out any money in payment for such stock until the international financial corporationin which the national bank desires to invest shall have been duly incorporated under the provisions of Section 25(a) and shall have received from the Board a preliminary permit to exercise such of the powers conferred upon it by that section as are incidental and preliminary to its organization.

Heretofore the Board has not required that these applications be in any particular form, but has accepted as an application a letter signed by an officer of the national bank requesting permission to invest in the stock of the international financial corporation. In view of the increasing number of national banks desirous of investing part of their capital and surplus in the stock of such corporations, the Board is now having prepared a form of application for use by national banks. As soon as these forms are available, national banks desiring to purchase stock in international financial corporations must make application to the Board upon the prescribed forms. The applications in the first instance must be forwarded to the Federal Reserve Agent of the district in which the applying bank is located, who will in turn forward them to the Federal Reserve Board with his recommendation noted thereon. This form will be suitable for use in making application to purchase stock either in Edge corporations or in corporations organized under State law.

Very truly yours,

Governor.

To Governors and Chairmen of Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

X-3003

December 27, 1920.

SUBJECT: Policy of Federal Reserve Banks Toward Commercial Paper Accompanied by New Financial Statements.

Dear Sir:

One of the Federal Reserve Banks has called the Board's attention to the fact that in the case of large manufacturing, industrial and mercantile concerns, which close their books for the year on the 31st instant, it is altogether probable that their new financial statements will show a very material reduction in the ratio of quick assets as compared to previous statements. It is suggested that it would be desirable for Federal Reserve Banks to adopt, as far as possible, a uniform, and perhaps a somewhat more liberal, policy in dealing with commercial paper offered them for rediscount when accompanied by new statements. The feeling of officials of some of the Federal Reserve Banks is that if a policy too critical or too rigid be adopted, not only would the moral effect upon the Banks be bad but the consequences might be disastrous. The Board would like to have, as early as convenient, the views of your Executive Committee on this subject.

Very truly yours,

G o v e r n o r.

To chairmen of all Federal Reserve Banks.
Copy to Governors.

X-3005

FEDERAL RESERVE BOARD.

STATEMENT FOR THE PRESS.

For release on Saturday morning,
January 1, 1921.

On Wednesday, December 29, 1920, the Federal Reserve Board approved the articles of association and organization certificate of the Federal International Banking Company, a corporation organized under the provisions of Section 25(a) of the Federal Reserve Act, commonly known as the "Edge Act". The capital of this corporation is $7,000,000 and its home office is in New Orleans, Louisiana. It is incorporated for the purpose of engaging in the business of international or foreign banking or other international or foreign financial operations. Pending the issue of a final permit to commence business the corporation has authority to exercise only those powers which are incidental and preliminary to its organization.

Washington, D. C.
December 31, 1920.

AN ACT TO AMEND SECTION 11 OF THE ACT APPROVED DECEMBER 23, 1913, KNOWN AS THE FEDERAL RESERVE ACT, AS AMENDED.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That Section 11 of the Act approved December 23, 1913, known as the Federal Reserve Act, as amended, be further amended by striking out the whole of subsection (m), and by substituting therefor a subsection to read as follows:

"(m) Upon the affirmative vote of not less than five of its members, the Federal Reserve Board shall have power to permit Federal reserve banks to discount for any member bank notes, drafts, or bills of exchange bearing the signature or endorsement of any one borrower in excess of the amount permitted by section nine and section thirteen of this Act, but in no case to exceed twenty per centum of the member bank's capital and surplus: Provided, however, That all such notes, drafts, or bills of exchange discounted for any member bank in excess of the amount permitted under such sections shall be secured by not less than a like face amount of bonds or notes of the United States issued since April twenty-fourth, nineteen hundred and seventeen, for which the borrower shall in good faith prior to January 1, 1921, have paid or agree to pay not less than the full face amount thereof, or certificates of indebtedness of the United States: Provided further, That the provisions of this subsection (m) shall not be operative after December thirty-first, nineteen hundred and twenty-one."

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

July 20, 1920.
St. 1299

Subject: Statistics relating to State banks and Trust companies eligible for membership in F.R. System.

Dear Sir:

With the view of enabling the Board to continue the preparation of tables similar to those appearing on pages 29 and 30 of the 1919 annual report, it is requested that you have the following data regarding State banks and Trust companies in your district compiled from the latest available reports, and forwarded to the Board at your earliest convenience:

State Banks and Trust Companies with Capital Stock sufficient to meet capital requirements for membership in Federal Reserve System.
(In thousands of dollars, i.e., 000 omitted.)

	Members of F. R. System on June 30, 1920.				Non-members of F. R. System on June 30, 1920.				
	Number	Capital	Surplus exclusive of undivided profits	Total resources	Date of condition report	Number	Capital	Surplus exclusive of undivided profits	Total resources
State of_____									
Banks with a combined capital and surplus of-									
Less than $1,000,000 - - - -									
Over $1,000,000 but less than $5,000,000 - - - -									
$5,000,000 and over - - - -									

In addition to furnishing separate data for each State, it will be appreciated if you will give the name and location of each non-member State Bank and Trust company in your district which has a combined capital and surplus of $1,000,000 or over, with separate figures of capital, surplus and total resources.

While it is recognized that figures as of June 30, 1920, will not be available for all banks and that consequently the latest available data will have to be utilized, it is desired that banks be classified as members and non-members on the basis of their status on June 30 in order that reports for all districts may be on a uniform basis. It will be appreciated if you will give the necessary instructions that care be exercised to exclude all institutions which, on the basis of capital requirements, are not eligible for membership in the Federal Reserve System.

Yours very truly,

Secretary.

Copy of this letter sent to Chairman of each F. R. Bank.

FEDERAL RESERVE BOARD

WASHINGTON

July 20, 1920.
St.1303

SUBJECT: Crop reports by Federal
Reserve Districts.

Dear Sir:

Transmitted herewith are forecasts of the production of corn, wheat, cotton, oats, and hay for 1920, issued by the Bureau of Crop Estimates as of July 1, 1920. These forecasts are shown for each Federal Reserve District and compared with the estimated production for 1919, and with the five-year average production, 1915 - 1919.

Respectfully,

Statistician.

Mr.
Federal Reserve Agent,

Enclosure.

EX OFFICIO MEMBERS

DAVID F. HOUSTON
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
ALBERT STRAUSS, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN
HENRY A. MOEHLENPAH

W. T. CHAPMAN, SECRETARY
R. G. EMERSON, ASSISTANT SECRETARY
W. M. IMLAY, FISCAL AGENT

July 23, 1920.
St. 1314.

Subject: Rediscount of Eligible Paper under Repurchase Agreements.

Dear Sir:

It has come to the attention of the Board that some member banks, under the assumption that repurchase agreements covering rediscounts with the Federal Reserve Bank are essentially bills payable, have not excluded the amount of paper so rediscounted from their loans and discounts in compiling Weekly Condition Reports, form St.51a. Whenever a Federal Reserve Bank extends accommodation to member banks on eligible paper under the so-called repurchase agreement, member banks should be informed that the transaction is not regarded as a loan on a bill payable, but as an actual rediscount of the individual notes for a uniform fixed period. It follows from the foregoing that the amount of accommodation thus extended must be the exact sum of the individual notes rediscounted under the repurchase agreement, and not an arbitrary amount less than the sum of the notes so rediscounted.

It is particularly important that member banks conform to this treatment of eligible paper rediscounted under repurchase agreements in compiling their Weekly Condition Reports, form St.51a, since if paper so rediscounted is not excluded from their loans and discounts, duplication will result when the Board adds the amount of the member banks' rediscounts with the Federal Reserve Bank, as reported by the latter, to the figures of loans and discounts, as reported by the member banks to obtain the amount of total loans and discounts (including rediscounts with the Federal Reserve Bank) as published in the Board's weekly statement.

It is requested, therefore, that appropriate instructions be given to member banks seeking accommodation through the rediscount of eligible paper under repurchase agreement, and that, if upon investigation it is found that reporting banks have not, in the past, excluded paper so rediscounted from their figures of loans and discounts as given in their weekly condition reports, the Board be furnished at the earliest practicable date with a statement showing the amount of paper to be deducted from the weekly figures furnished by each bank since January 1.

Very truly yours,

Assistant Secretary.

Copy of this letter sent to Chairman of each F. R. Bank.

FEDERAL RESERVE BOARD

WASHINGTON

July 27, 1920.
St. 1319.

SUBJECT: Abstract of Condition Reports of Member State Banks and Trust Companies as of May 4, 1920.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Abstract No. 10 showing condition of State Bank and Trust Company members as at close of business on May 4, 1920. Consolidated figures for all member banks, both National and State, are shown on pages 1 and 12.

Please forward one copy of this abstract to each State Bank and Trust Company member in your district which, in response to your inquiry as requested in the Board's letter St. 1100 of April 20, 1920, expressed a desire to receive copies of abstracts issued in the future.

Very truly yours,

Assistant Secretary.

(Copy of above letter sent to Chairman of each F. R. Bank.)

FEDERAL RESERVE BOARD

WASHINGTON

August 28, 1920
St.1391

SUBJECT: Forms for reporting earnings, expenses and fiscal agency department disbursemnets.

Dear Sir:

There are being forwarded to you today under separate cover copies of revised Forms 95 and 96, and 55 copies of Form 97a for use in reporting earnings, expenses and fiscal agency department disbursements during the balance of the calendar year 1920.

You will note that the heading of the second amount columns of Forms 95 and 96 have been changed to read "Total since July 1, 1920", while the corresponding heading on Form 97a remains, as heretofore, "Total since January 1, 1920".

Very truly yours,

Assistant Secretary.

To all Chairmen

FEDERAL RESERVE BOARD

WASHINGTON

September 11, 1920
St. 1416

SUBJECT: Crop reports by Federal
Reserve Districts.

Dear Sir:

Transmitted herewith are forecasts of the production of corn, wheat, cotton, oats, and hay for 1920, issued by the Bureau of Crop Estimates as of September 1, 1920. These forecasts are shown for each Federal Reserve District and compared with the August 1 forecast and the estimated production for 1919.

Respectfully,

Assistant Secretary.

Mr.
Federal Reserve Agent,

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

September 28, 1920

St. 1452.

SUBJECT: Recapitulation of Daily Reserve Ratios of each Federal Reserve Bank.

Dear Sir:

In order to confirm the daily reserve percentage telegrams, hereafter a weekly recapitulation of reserve ratios for all Reserve Banks, both actual and adjusted, will be sent to each Federal Reserve Bank.

Copy of the statement for the week ending September 25th is enclosed herewith.

Very truly yours,

Assistant Secretary.

Mr.
Federal Reserve Agent,

Enclosure.

To all F. R. Agents except San Francisco.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

October 4, 1920.

St.1449

SUBJECT: Abstract of Condition Reports of Member State Banks and Trust Companies as of June 30, 1920.

Dear Sir:

We are forwarding to you under separate cover copies of the Board's Abstract No. 11 showing the condition of State Bank and Trust Company members as at close of business on June 30, 1920. Consolidated figures for all member banks, both National and State, are shown on pages 1 and 12

Please forward one copy of the abstract to each State Bank and Trust Company member in your district that has expressed a desire to receive copies of abstracts as issued.

Very truly yours,

Assistant Secretary.

Mr.

Federal Reserve Agent,

FEDERAL RESERVE BOARD

WASHINGTON

October 12,1920.
St.1487

SUBJECT: Crop reports by Federal Reserve Districts.

Dear Sir:

Transmitted herewith are forecasts of the production of corn, wheat, cotton and oats for 1920, issued by the Bureau of Crop Estimates as of October 1, 1920. These forecasts are shown for each Federal Reserve District and compared with the September 1 forecast and the estimated production for 1919.

The statement does not show any figures for winter wheat and hay, the September 1 estimates for these crops remaining unchanged.

Very truly yours,

Assistant Secretary.

Mr.
Federal Reserve Agent,

Enclosure.

FEDERAL RESERVE BOARD

WASHINGTON

October 28, 1920.
St.1528.

SUBJECT: Outline of Federal Reserve
Branch Banks.

Dear Sir:

There are enclosed herewith copies of "Outline of Federal Reserve Branch Banks, covering Powers and Functions, also Character and Volume of Business Handled", revised as of June 30, 1920. The outline is based on information furnished in response to the Board's letter of June 4 (St.1196), as well as on regular and special reports received from the Federal Reserve Banks and Branches during the first half of the present year.

As stated in the Board's letter St. 623 of October 2, 1919, transmitting the original outline, the purpose of the compilation is to present in a uniform way, for the information of the members and officers of the Federal Reserve Board and the officers of the Federal Reserve Banks and Branches, the method of operation obtaining at each Branch Bank.

It is expected that the statement will be revised again during the forthcoming year, and with a view to keeping it up to date it will be appreciated if the Board's attention is called to any alterations or revisions that may become necessary because of changes in the organization or operation of Branches.

Very truly yours,

Assistant to Governor.

Enclosure.

(Letter sent to each F. R. Agent)

FEDERAL RESERVE BOARD

WASHINGTON

November 10, 1920.
St. 1561.

SUBJECT: Revision of Forms for Use During the Calendar Year 1921.

Dear Sir:

The Board is now revising Forms F.R.A. 5, 34, 95, 96, and 97a for use during the calendar year 1921. A new form, No. 97, is also being prepared for use in reporting income and expense in connection with "Other Real Estate" as recommended by the committee on Real Estate Accounting appointed by the fifth Auditors' conference held at Cleveland in June 1919.

Will you kindly advise us as soon as practicable the number of copies of each of the above mentioned forms that will be required for use by your bank (and branches, if any) during the forthcoming calendar year.

In case your bank desires to have copies of Form 34 for use of branch banks printed with the name of the branch in parentheses following the name of the parent bank, kindly advise us of the number of copies of the form desired for use of each Branch.

Very truly yours,

Assistant to Governor.

Letter sent to each Federal Reserve Agent.

November 12, 1920.
St.1572

SUBJECT: Revised Form 105, Condition Report of State Bank and Trust Company Members.

Dear Sir:

There are being forwarded to you today under separate cover by registered mail copies of Form 105, revised as of November 1, 1920.

Please mail three copies of the form to each State Bank and Trust Company member in your district, with instructions to hold the blank forms pending receipt of a call for condition report, when they should be promptly filled out and two copies mailed to you - in no case later than ten days after receipt of the call.

Kindly acknowledge receipt.

Very truly yours,

Assistant to Governor.

Letter sent to each F. R. Agent.

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

November 12, 1920.
St.1573.

SUBJECT: Classification of Member Banks by Electoral Groups.

Dear Sir:

Will you kindly furnish the Board with a statement at your early convenience showing the following information as of November 16, 1920, the date set for opening the polls for the forthcoming election of Class A and Class B directors of Federal Reserve Banks:

1. Maximum and minimum amount of combined capital and surplus for each of the three groups of member banks.
2. Number of member banks in each group.
3. Aggregate capital and surplus of member banks in each group.

Very truly yours,

Secretary.

Letter sent to each Federal Reserve Agent.

FEDERAL RESERVE BOARD

WASHINGTON

November 19, 1920.
St.1576

Subject: Equipment for Printing Federal Reserve Notes.

Dear Sir:

The Treasury Department has advised the Board that, in rendering bills for expenses connected with the printing of Federal Reserve notes since the organization of the Federal Reserve Banks, no charges have been included to cover depreciation of the printing presses and other equipment used in printing such notes.

It is now necessary to buy additional equipment for printing such notes, and in accordance with Section 16 of the Federal Reserve Act which provides that the expenses necessarily incurred in executing the laws relating to the procuring of Federal Reserve notes and all other expenses incidental to their issue and retirement shall be paid by the Federal Reserve Bank, the Treasury Department has requested the Federal Reserve Board to levy an assessment of $540,000 upon the Federal Reserve Banks to cover the cost of the additional equipment.

The Treasury states that a charge should be levied against the Federal Reserve Banks on account of depreciation in equipment used in printing Federal Reserve notes since the organization of the Federal Reserve Banks, amounting to $193,035.96, or at the rate of $1.11 per thousand sheets of notes printed, also that it estimates that the depreciation cost during the next three years, owing to the increase in the cost of equipment, will be at the rate of $1.46 per thousand sheets. The difference between the $540,000 assessment and the $193,035.96 representing depreciation during the past five years, or $346,964.04 will therefore represent the depreciation to be charged off as new Federal Reserve notes are printed.

In the following table will be found the amount of the assessment against each bank on account of depreciation of printing equipment prior to June 30, 1920, which should be charged to current expense on December 31, 1920 and the amount of the additional assessment for new equipment together with the method of arriving at the two amounts.

Federal Reserve Bank	Number of Sheets Printed to June 30, 1920	Percent Printed for each Bank	Assessment for Depreciation 1915-1920 to be charged to Current Expenses on December 31, 1920	Additional Assessment for New Equipment	Total Assessment
Boston	14,994,100	8.63	$16,659.00	$29,943.00	$46,602
New York	50,657,300	29.16	56,289.29	101,174.71	157,464
Philadelphia	14,269,300	8.21	15,848.25	28,435.75	44,334
Cleveland	11,797,300	6.79	13,107.14	23,558.86	36,666
Richmond	8,167,600	4.70	9,072.69	16,307.31	25,380
Atlanta	9,808,300	5.65	10,906.53	19,603.47	30,510
Chicago	24,140,200	13.89	26,812.70	48,193.30	75,006
St. Louis	9,466,400	5.45	10,520.46	18,909.54	29,430
Minneapolis	5,653,600	3.25	6,273.67	11,276.33	17,550
Kansas City	8,105,000	4.66	8,995.48	16,168.52	25,164
Dallas	5,715,600	3.29	6,350.88	11,415.12	17,766
San Francisco	10,973,700	6.32	12,199.87	21,928.13	34,128
Total	173,748,400	100.00	193,035.96	346,964.04	540,000

It will be noted that in arriving at the assessment for new equipment, which is to be taken up on your books and amortized into current expense as new notes are printed, we have assumed that the notes printed for each bank in the future will bear the same relation to the total number printed for the System as obtained during the past five years. An adjustment of the amounts of the additional assessment for new equipment will be made between Federal Reserve Banks at a future date if made necessary by changes in the percentages of notes printed.

The amount of the assessment for depreciation prior to June 30, 1920, should be charged to current expense on December 31, 1920, and the balance of the assessment, set up as an asset account on the bank's books and carried on the balance sheet, form 34, against the caption "Equipment for printing Federal Reserve notes". This latter amount should be amortized into current expenses at the rate of $1.46 per thousand sheets of Federal Reserve notes printed for the bank subsequent to June 30, 1920, such amortization charges to current expense to be made at the same time as are the charges covering the cost of printing Federal Reserve notes. Relative to charges to current expenses which have been made on account of notes printed since June 30, 1920, the depreciation charge of $1.46 for each one thousand sheets of notes should be immediately made to current expenses to cover depreciation on equipment since June 30.

Please deposit the total amount chargeable against your bank in the General Account, Treasurer, U. S., on your books, and issue C/D on form 1, National Banks, for credit of "Salaries and Expenses, Federal Reserve Board, Special Fund", reimbursements, sending duplicate C/D to the Federal Reserve Board.

Very truly yours,

Governor.

To Chairmenof all Federal Reserve Banks.

FEDERAL RESERVE BOARD

WASHINGTON

November 16, 1920.
St. 1577.

SUBJECT: Preparation of Annual Reports.

Dear Sir:

On account of the limitations as to the size of the Annual Report of the Board and the exhibits and supplements thereto, as outlined in the Board's letter X-1722 of November 12, 1919, the Board has decided to follow the plan adopted last year of publishing an abstract of the report of each Federal Reserve Agent instead of publishing the reports in full. Accordingly, the Board will not prescribe a specified form to which reports of Federal Reserve Agents shall adhere, but would ask that you give, immediately following the introduction, a general review of the service and activities of the Federal Reserve Bank during the year, to be followed by an exhibit of earnings and expenses.

In order, however, that the statistical portion of the abstracts of the Federal Reserve Agents' reports to be published in the Board's forthcoming 1920 Annual Report may be compiled in a uniform manner for all Federal Reserve Banks, may we request that tables be prepared and forwarded to the Board in accordance with the following list, all figures to be in thousands of dollars except in table relating to earnings and expenses where the amounts should be shown in dollars:

1. Comparative balance sheet as of December 31 for the years 1917 to 1920 presented in the form now used in the Board's weekly press statement.

2. Volume of bills discounted and purchased each month during 1920 with totals for three preceding years. (Exclusive of bills discounted for or purchased from other Federal Reserve Banks). Form - See attached sheet marked exhibit A.

3. Operations of check clearing and collection department. Detailed classification of the number and amount of items handled, by months, during 1920, with totals for the three preceding years. (Figures may be for calendar months or for monthly periods ending on the 15th of each month). Form - See attached sheet marked exhibit B.

4. Currency receipts from and shipments to member and non-member banks, by months, during 1920 with totals for the three preceding years. Form - See attached sheet marked exhibit C.

5. Earnings and expenses during 1920, with totals for three preceding years. Form - Same form as adopted in Federal Reserve Board's 1919 Annual Report. (Exhibit G, pages 232-234).

It is not intended in the foregoing specification of tables for use in the Board's Annual Report to impose any restriction upon the matter to be included in the full reports of the Federal Reserve Agents. It is desired, however, that, as heretofore, the manuscript for the text of your report be forwarded to the Board as early as practicable, also that the statistical tables included in the report be forwarded to the Board as soon after January 1 as possible in order that we may be able to compare figures in such tables with corresponding figures compiled by the Board for insertion in its Annual Report and reconcile differences before any of the Federal Reserve Agents' reports are released for publication.

In addition the Board will prepare a table for each Federal Reserve Bank to replace exhibits A and B of the 1919 Annual Report, in which, both in the case of discounted and purchased bills, adjustments on account of transactions with other Federal Reserve Banks will be made in order to show the amounts of bills discounted for member banks in own district and the amount of bills purchased in the open market. The statement will be prepared in accordance with the form attached hereto marked exhibit D.

From data given in these tables two charts similar to those printed in the Board's 1919 Annual Report will be prepared by the Board, one showing the relation of reserves to Federal Reserve note and net deposit liabilities, and the other showing the movement of earning assets, including the amount of paper discounted for member banks in own district and the percentage of such paper secured by Government war obligations. Copies of the above mentioned tables and charts will be forwarded to you when completed.

Very truly yours,

Governor.

Letter sent to each Federal Reserve Agent.

1831

Ex Officio Members

DAVID F. HOUSTON
SECRETARY OF THE TREASURY
CHAIRMAN

JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
EDMUND PLATT, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN
HENRY A. MOEHLENPAH

W. T. CHAPMAN, SECRETARY
R. G. EMERSON, ASSISTANT SECRETARY
W. M. IMLAY, FISCAL AGENT

November 19, 1920.

St. 1585.

SUBJECT: Revision of Daily Balance Sheet, Form 34.

Dear Sir:

There is forwarded herewith one copy of the proof of the daily balance sheet, form 34, to be used by the Federal Reserve Banks during the calendar year 1921.

The spacing on the form will be somewhat rearranged so as to provide additional blank lines in certain subdivisions, particularly the "Deposits" and "Miscellaneous Liabilities" blocks.

In case the Bank has any suggestions to offer with regard to the revision of the form, it is requested that they be mailed or telegraphed to the Board in time to reach Washington not later than November 26.

Very truly yours,

Assistant to Governor.

Letter to each Federal Reserve Agent except New York.

FEDERAL RESERVE BOARD

WASHINGTON

November 22, 1920.
St.1593.

SUBJECT: Monthly Reports of Earnings and Expenses, Forms 95, 96, 97 and 97a.

Dear Sir:

Forms for use in reporting earnings and expenses of the Federal Reserve Banks during the calendar year 1921 have been revised and a supply will be forwarded to you as soon as received from the printer. In order to insure uniformity in the treatment of the various items, it will be appreciated if the methods outlined herein are followed in the preparation of these reports.

INCOME AND EXPENSE - BANK PREMISES.

With a view to enabling Federal Reserve Banks to render uniform reports in detail to the Board in connection with their operations in Bank Premises, the Chief of the Board's Division of Reports and Statistics asked the Auditors at their conference held in Cleveland in June 1919 to study the question of accounting with relation to Real Estate or Bank Premises owned by the Federal Reserve Banks. The report, as submitted by the Auditors and later modified after conference with the Chief of the Board's Division of Reports and Statistics, has been adopted by the Board with the following modifications, and it is requested that the plan outlined be made effective January 1, 1921.

The item "Bank Premises" appearing in the weekly press statement of the Federal Reserve Board showing "Resources and Liabilities of the Federal Reserve Banks", includes all real estate owned by the Federal Reserve Banks whether or not occupied as a banking house. In order therefore that there may be no confusion of terms, the words "Banking House" should be substituted for the words "Bank Premises" wherever they occur in the Committee's report, and such substitution of terms is made in this letter.

OTHER REAL ESTATE - The committee's report provides:

> When property classed as "Other Real Estate" is occupied in part by the bank, "Expenses - Other Real Estate" should be credited and "Expenses, Banking House" debited with the proper proportion of expenses, based upon the percentage of the floor space occupied by the Federal Reserve Bank.

There may be cases where the "floor space basis" would be manifestly unfair, and the Federal Reserve Banks are therefore authorized to adopt a different basis, to be approved in each instance by the Federal Reserve Board, whenever conditions warrant.

BANKING HOUSE - CLASS 3 - When property purchased by a Federal Reserve Bank for use as a permanent banking house is partially occupied by tenants, either temporarily or permanently, "Expenses, Other Real Estate" should be charged and "Expenses, Banking House" credited with the proper proportion of the cost of maintaining the property. Likewise income received from property thus rented should be credited to "Income, Other Real Estate". This will obviate the necessity of setting up the new account "Income, Banking House" on Form 34 as recommended in the committee's report. It is understood, of course, that the books of the Federal Reserve Bank will be kept in such manner that the proportion of the total rents received, which is applicable to Banking House account and to Other Real Estate account, respectively, will be available at all times.

DEFERRED CHARGES - OTHER REAL ESTATE - The committee's report recommends that:

> Extraordinary expenditures for major repairs and alterations to property classed as "Other Real Estate" be distributed monthly over a period of one year.

Approval of the Federal Reserve Board should be obtained before any extraordinary expenditures are incurred for major repairs and alterations to "Other Real Estate". In certain cases it may be found advisable to prorate such expenditures to "Expenses, Other Real Estate" over the period covered by a rental contract, or that during which the Federal Reserve Bank expects to rent the building to be altered or repaired, rather than for a definite period of one year. Requests submitted to the Federal Reserve Board for approval of extraordinary expenditures for repairs and alterations to "Other Real Estate" should include a statement specifying the period over which it is expected to prorate such expenditures.

NEW BUILDING ACCOUNT - Requests submitted to the Federal Reserve Board for permission to charge off certain expenses connected with the "New Building Account", as recommended in the Committee's report, should include a statement in detail covering the expenditures it is proposed to charge off as well as a statement giving the fair market value of the ground and new building separately.

INCOME AND EXPENSE, OTHER REAL ESTATE - New Form 97 has been prepared for use in reporting income and expenses connected with property classed by the committee as "Other Real Estate". The net amount of such income or expense should be shown on the liability side of form 34 among deductions from current net earnings against new item "Less Net Expense (or plus net income) Other Real Estate" instead of being reported as part of the Profit and Loss account as recommended by the Committee. On December 31, the net income or net expense resulting from the operation of "Other Real Estate" during the current year will be credited or debited, as the case may be, to current net earnings.

FORM 96 - CURRENT EXPENSES

FEDERAL RESERVE CURRENCY (Original cost including shipping charges): Amounts reported against this item should represent the total expense to the Federal Reserve Bank connected with the printing of Federal Reserve and Federal Reserve Bank Notes, also the cost of shipping such notes from Washington to the Federal Reserve Bank and its branches.

MISCELLANEOUS CHARGES ACCOUNT FEDERAL RESERVE CURRENCY: The cost of shipping Federal Reserve and Federal Reserve Bank notes to Washington or to another Federal Reserve Bank for credit or redemption as well as the cost to the Federal Reserve Bank of redeeming such notes at Washington should be reported against this item.

TAXES ON FEDERAL RESERVE BANK NOTE CIRCULATION: Taxes accrued on Federal Reserve Bank notes should be estimated as at the close of business on the last day of each month and the amount thereof charged to current expenses and credited to account "Reserved for Taxes other than Franchise Tax" of Form 34.

MEMORANDUM ITEMS

MEMORANDA ON REVERSE SIDE OF FORM 96: It is requested that only such amounts be reported against the memorandum items as represent expenditures which are not charged to current expenses or to "Expenses, Other Real Estate", during the month in which the expenditure occurred. For example, the cost of office furniture which is taken up on your books as an asset and shown against caption "Furniture and Equipment" of Form 34 should be reported against memorandum item No. 4 of Form 96, while office furniture which is charged to current expenses at the time of purchase should be reported against item No. 31, "Other Current Expenses" on Form 96.

FORM 95 - EARNINGS

DISCOUNT PROFIT OR LOSS ON BILLS REDISCOUNTED WITH OR SOLD TO ANOTHER FEDERAL RESERVE BANK: Net earnings resulting from the rediscount of discounted paper or the sale of bankers' acceptances to another Federal Reserve Bank at a lower rate than that at which the paper was originally discounted or purchased should be credited to earnings on discounted or purchased bills as the case may be, while any loss resulting from the rediscount or sale of such paper to another Federal Reserve Bank at a rate in excess of that at which the paper was originally acquired should be deducted from earnings on discounted or purchased bills as shown on the daily balance sheet, Form 34, and on the monthly earnings reports, Forms 95 and 722.

INTEREST ON PAST DUE PAPER: Past due paper should be carried among the earning assets of your bank and interest earned on such paper credited to earnings on discounted bills.

Very truly yours,

Assistant to Governor.

Letter sent to Chairman of each F.R. Bank.

FEDERAL RESERVE BOARD

WASHINGTON

November 27, 1920.
St.1605.

SUBJECT: Debits to Individual Account at Reporting Clearing House Centers.

Dear Sir:

It has been noted that debits to individual account, reported for clearing house centers, especially during the more recent weeks, have shown material fluctuations due in no small part to the fact that the number of banks for which reports were made has not been uniform from week to week. It is evident that if these figures are to retain any informative value they must represent debits for the same banks each week, otherwise the figures are not only of no value but are misleading in that the trend of business which these debits are supposed to measure may be in exactly the opposite direction from that indicated.

With a view to putting the weekly statements of debits to individual account on a strictly comparable basis, it is requested that where the figures received from any reporting clearing house manager fail to include debits for all banks for which reports should be received, immediate steps be taken to obtain the complete figures. In no case, however, should reports for other centers be held up pending the receipt of final and complete data from clearing house centers for which no reports or incomplete reports were received. The Board may find it necessary hereafter to refrain from publishing figures for any clearing house center where the figures furnished do not represent debits for the full number of banks which are on the list of banks for which that center makes weekly reports.

We note that there are a few centers for which the number of reporting banks, code IDES, has not been given in the past. In order that the Board may be able to determine whether or not the figures are strictly comparable, also whether any errors have been made in transmission of the telegrams, may we request that in the future the number of reporting banks, code IDES, be given for each reporting center and that telegraphic reports to the Board give the total number of reporting banks and the aggregate amount of debits included in each telegram.

In order that the Board may have definite information as to whether or not figures received include debits for all banks whose checks are cleared through the clearing house, i.e., for all clearing house members and for banks which clear through clearing house members (so-called clearing non-members), as requested in previous letters on this subject, kindly furnish us as soon as practicable with a statement showing for each reporting center (a) the names of all clearing house member banks and (b) the names of all clearing non-member banks. The names of clearing non-member banks should appear immediately following (and slightly indented under) the names of clearing house member banks through which their checks are handled, and the words "not reporting" should be added in parentheses after the name of each bank for which no reports are now received. A supplementary statement should also be furnished the Board, giving the names of banks for which no reports are now received but will be received beginning with January 1, 1921.

If in your judgement there are any clearing house centers in your district which should be added to or eliminated from the list for which debits are now published by the Board, we shall be very glad to receive your recommendation on the subject.

As previously explained, debits to individual account represent all debits to the accounts of individuals, firms, and corporations, and of the U. S. Government, including debits to War Loan Deposit Account, debits against savings accounts, payments from trust accounts and of certificates of deposit.

Very truly yours,

Assistant to Governor.

Letter sent to each F. R. Agent.

1920

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

December 2, 1920.
St.1613.

SUBJECT: Schedules showing changes in discount rates.

Dear Sir:

It will be appreciated if you will kindly furnish the Board with a complete file consisting of two copies each of all schedules or other notices issued to member banks relating to changes made in discount rates since January 1 of the present calendar year.

Very truly yours,

Assistant to Governor.

Letter sent to each F. R. Agent.

FEDERAL RESERVE BOARD

WASHINGTON

December 7, 1920.
St.1628.

SUBJECT: Revision of Daily Balance Sheet, Form 34.

Dear Sir:

For your information there is enclosed herewith an unruled copy of the daily balance sheet, Form 34, as finally approved for use during 1921. The regular supply of this form will be forwarded to you within the next ten days.

Very truly yours,

Assistant to Governor.

(Letter sent to each Federal Reserve Agent, except Chicago.)

FEDERAL RESERVE BOARD

WASHINGTON

December 9, 1920.
St.1629.

SUBJECT: Forms for Reporting Earnings, Expenses and Fiscal Agency Department Disbursements.

Dear Sir:

In accordance with the Board's letter St. 1593, of November 22, 1920, there is being forwarded to you today under separate cover a supply of revised Forms 95, 96, 97, and 97a for use in reporting earnings, expenses and fiscal agency department disbursements during the calendar year 1921.

Item "Transit Department Expense" has been eliminated from Form 96 for the reason that such expenses as now reported by the Federal Reserve Banks and Branches are not compiled in a uniform manner. Compilation of this information may therefore be discontinued until such time as definite instructions are issued by the Federal Reserve Board regarding the method to be followed in arriving at Transit Department expense.

Very truly yours,

R. G. Emerson,
Assistant to Governor.

(Letter sent to each F. R. Agent.)

FEDERAL RESERVE BOARD
WASHINGTON

December 9, 1920.
St.1631

SUBJECT: Revision of Weekly Member Bank Condition Report, Form St. 51.

Dear Sir:

Considerable difficulty has been experienced in the past in obtaining weekly figures, comparable over any extended period of time, of principal resources and liabilities of reporting member banks in selected cities. This has been due, in addition to the difficulty of obtaining uniformly correct information from member banks, to the fact that the number of reporting institutions has not remained constant, largely because state banks and trust companies admitted to membership in the System have been added from time to time to the list of reporting banks.

In order that the Board may be in a position to follow more closely changes in the list of reporting member banks in each selected city, it will be appreciated if a statement is furnished at the earliest practicable date showing the names of all member banks in each selected city in your district, the words "not reporting" to appear after the names of those banks which do not submit weekly condition reports at the present time. A supplementary statement should also be furnished giving the names of banks not now submitting reports but from which it will be practicable to obtain reports commencing with the week ending on January 7 of the forthcoming year.

It will be the policy of the Board hereafter to make additions to the list of reporting banks only on January first of each year, except where special circumstances warrant additions at other times in order to keep the figures on a comparable basis, and no change should therefore be made in the list of reporting banks as determined for the year 1921 until approved by the Board. As a general rule, such approval will be given in case a newly organized bank becomes a member of the Federal Reserve System, unless the new bank takes over the assets of a non-reporting bank; also in case a reporting bank liquidates, another bank, with a fairly comparable volume of deposits, loans and discounts, and investments, may be added to take its place. The Board will also authorize changes in other special cases, when it deems such action necessary in order to maintain the comparability of the figures.

To further improve the Board's weekly statement, it is requested that during the forthcoming year member banks be asked to subdivide the item "All other loans and investments", so as to show loans and discounts separately from investments. It will also be noted, from revised form St. 51a, that item "U. S. bonds to secure circulation" has been consolidated with item "Other U. S. Bonds", and that item "Reserve balance with F.R. Bank" has been eliminated from the form furnished to reporting banks. The figures for the latter item should be taken from the books of the Federal Reserve Bank, as is now done in the case of Government deposits, Member banks' collateral notes, and Bills discounted for member banks.

In order that there may be no misunderstanding as to the exact information to be reported against each of the captions of Form St. 51a, a copy of the revised form is enclosed herewith, and it is requested that in furnishing the reporting member banks with a supply of the new form you adopt the phraseology given therein. We are also enclosing 100 copies of revised form St. 51 to be used in rendering the consolidated report to the Board.

Very truly yours,

Governor.

Letter sent to each Federal Reserve Agent.

Form St.51. **1246**
(Rev. Dec. 1920)

FEDERAL RESERVE BANK OF ________________.

WEEKLY REPORT OF MEMBER BANKS IN SELECTED CITIES TO BE SUBMITTED TO THE FEDERAL RESERVE BANK AS AT CLOSE OF BUSINESS EACH FRIDAY.

_________________________ _________________________
(City) (State)

Friday, ______________, 1920.

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1. Loans and discounts secured by United States Government obligations - $ __________
   All loans and discounts carried by bank (exclusive of paper under rediscount with Federal Reserve and other banks) for which borrower has pledged as security obligations issued by the U. S. Government.

2. Loans and discounts secured by stocks and bonds other than United States securities - __________
   All loans and discounts carried by the bank (exclusive of paper under rediscount) for which borrower has pledged stocks and bonds other than bonds issued by U. S. Government.

3. All other loans and discounts - - - - - - - - - - - - - - - - - __________
   All loans and discounts carried by bank (exclusive of bills rediscounted with Federal Reserve and other banks) other than those reported against items 1 and 2.

4. Total loans and discounts (Sum of items 1, 2 and 3) - - - - __________

   NOTE: Rediscounts comprise bills and notes endorsed by reporting bank and rediscounted with Federal Reserve Bank or other banks for number of days to actual maturity, including notes and bills rediscounted under repurchase agreements. Bills and notes used to secure bills payable (reporting bank's own notes) do not constitute rediscounts and therefore should not be deducted from loans and discounts as reported against items 1, 2 and 3.

5. United States Government bonds - - - - - - - - - - - - - - - - __________
   United States bonds actually owned, including bonds deposited with U.S. Treasurer to secure circulation and bonds pledged as collateral, but excluding bonds borrowed.

6. United States Victory notes - - - - - - - - - - - - - - - - - - __________
   United States Victory notes actually owned, including Victory notes pledged as collateral, but excluding Victory notes borrowed.

Form St.51. 1247
(Rev. Dec. 1920)

7. United States Certificates of indebtedness - - - - - - - - - - $ ____________
Short-term Treasury loan and tax certificates actually owned, including certificates pledged as collateral, but excluding certificates borrowed.

8. Other bonds, stocks, and securities - - - - - - - - - - - - - ____________
All stocks, bonds (other than U.S.Bonds), and mortgages actually owned by the bank whether pledged or unpledged (exclusive of Federal Reserve Bank stock).

9. Total loans and discounts, and investments (Sum of items 4 to 8) ____________
Total loans and discounts, and investments, exclusive of real estate, banking house, furniture and fixtures and Federal Reserve bank stock.

10. Cash in vault - ____________
Total of gold, silver, and paper currency on hand and in vault.

11. Net demand deposits on which reserve is computed - - - - - - ____________
Individual deposits subject to check, certificates of deposit due in less than 30 days, dividends unpaid, State and municipal deposits, and other deposits subject to notice of less than 30 days.

PLUS. Excess of total of -
(a) Balances due to all banks other than Federal Reserve Bank.
(b) Amount due to Federal Reserve Bank - deferred credits.
(c) Cashier's, secretary's, or Treasurer's checks on own bank outstanding.
(d) Certified checks outstanding.

Over the total of -
(e) Balances due from banks other than Federal Reserve Bank and foreign banks.
(f) Items with Federal Reserve Bank in process of collection.
(g) Exchanges for clearing house.
(h) Checks on other banks in same place.

NOTE: In case the sum of items (e) to (h) inclusive is in excess of the sum of items (a) to (d), disregard items (a) to (h) in making up total net demand deposits.

12. Time deposits - ____________
All deposits payable after 30 days, all savings deposit accounts and certificates of deposit subject to not less than 30 days notice, and all postal savings deposits.

____________________, Cashier,

____________________, Bank.

Note: This report should be mailed to the Federal Reserve Bank on Saturday morning of each week.

1248

FEDERAL RESERVE BANK OF ____________________

WEEKLY REPORT OF PRINCIPAL RESOURCE AND LIABILITY ITEMS OF MEMBER BANKS IN SELECTED CITIES.

Form St.51
(Rev. Dec. 1920)

(In thousands of dollars)

Figures as at close of business on Friday____________________19______

	Code	F. R. Bank Cities	Code	F. R. Branch Cities	Other selected cities	Code	All selected cities in district
Number of reporting banks	RANT		ROSE			REEM	
1. Loans and Discounts (exclusive of rediscounts) -							
(a) Secured by U.S.Govt.obligations	HALT		KAPE			PAST	
(b) Secured by stocks and bonds, other than U. S. Bonds - - - -	HEAD		KEEL			PEEP	
(c) All other - - - - - - - - - -	HOME		KITE			PROM	
2. Investments -							
(a) U. S. Bonds - - - - - - - - - -	HOOP		KOTE			POPE	
(b) U. S. Victory Notes - - - - -	HUNT		KUSE			PURA	
(c) U. S. Certificates of Indebtedness - - - - -	HURD		KUHN			PYRE	
(d) Other Bonds, Stocks and securities - - - - - -	HARK		KARP			PADE	
3. Total loans and discounts, and investments - - - - -	HICK		KIMP			PILF	
4. Reserve balances with F.R. Bank* -	HEPP		KERR			PENT	
5. Cash in vault - - - - - - - - - - - -	HIST		KICK			PICT	
6. Net demand deposits on which reserve is computed - - - - -	HOUR		KOON			POSE	
7. Time deposits - - - - - - - - - - - -	HUMP		KUTH			PUTM	
8. Government deposits* - - - - - - - -	HADE		KANT			PAWT	
9. Member banks' collateral notes secured by -*							
(a) U. S. Govt. obligations - - -	HERR		KORB			PARK	
(b) All other - - - - - - - - - -	HOOF		KALB			PRAG	
10. Bills discounted for member banks secured by -*							
(a) U. S. Govt. obligations - - -	HUTE		KNOB			PEON	
(b) All other - - - - - - - - - -	HUSS		KARS			PLOW	
TOTAL (Items 3 to 10 inclusive) - -	RISH		RATE			ROWL	
11. Due from banks, bankers and trust companies - gross ** - - - - - -	HOTE						
12. Due to banks, bankers and trust companied - gross ** - - - - - -	HUPE						

Notes

Figures should be either mailed or telegraphed to the Board so as to reach Washington not later than 9 o'clock each Friday morning.

Figures wired to the Board should include only those for "Federal Reserve bank cities," "Federal Reserve branch cities" and "All selected cities in district."

*Items 4, 8, 9, and 10, which are to be inserted by the Federal Reserve Bank, should include figures for reporting banks only.

**Item 11 should not include amounts due from Federal Reserve bank and foreign banks, items with Federal Reserve bank in process of collection, exchanges for clearing house, checks on local banks, cash items, etc.

Item 12 should not include amounts due to Federal Reserve bank and foreign banks.

FEDERAL RESERVE BOARD

WASHINGTON

December 11, 1920.
St.1640.

SUBJECT: Form FRA-5, Daily Statement of Federal Reserve Agent.

Dear Sir:

The 1921 edition of form FRA-5, daily statement of Federal Reserve Agent, has been received from the printer, and a supply is being forwarded to you today, under separate cover.

On the new edition of the form, the amount of Federal Reserve notes returned to the Comptroller of the Currency for destruction is treated as a deduction from the gross amount received from the Comptroller, whereas at present this item appears on the resource side.

It will also be noted that code words have been provided for certain of the items, including two memorandum items covering notes issued and retired during the week. As stated in the note at the bottom of the form, the code items are to be telegraphed to the Board (in thousands of dollars) as at close of business on each Friday. The first telegraphic report on form FRA-5 should be made as of January 7, 1921, at which time weekly reports on form 31-b may be discontinued.

Very truly yours,

R. G. Emerson,
Assistant to Governor.

(Letter sent to each Federal Reserve Agent)

FEDERAL RESERVE BOARD

WASHINGTON

December 11, 1920.

St. 1641.

SUBJECT: Closing of Books on December 31, 1920.

Dear Sir:-

With the view of maintaining uniformity of practice, the Federal Reserve Board has approved the following rules to be adopted by the Federal Reserve Banks for the treatment of depreciation and extraordinary charges against current net earnings at closing of books on December 31, 1920.

1. Cost of Federal Reserve and Federal Reserve Bank Notes.
   Charge balance of account "Cost of Federal Reserve currency" as shown by books on December 31 to current expenses. For method of treatment of the account "Equipment for printing Federal Reserve notes", see Board's letters St. 1576 and X-2075, dated November 19 and December 2, 1920, respectively.

2. Furniture and Equipment.
   Charge balance of account as shown by books on December 31 to current expenses.

3. Cost of Vaults, Permanent Alterations and Improvements, and Bank Premises.
   No charges against current expense or current net earnings should be made on account of vaults, permanent alterations and improvements, or bank premises without first obtaining the approval of the Federal Reserve Board.
   In acting upon requests for approval to charge off the cost of alterations and improvements and to make certain charge-offs on account of depreciation of bank buildings or properties purchased with the intention of erecting new bank buildings, the Board will be guided in general by the principles outlined in its letter X-1741 dated December 3, 1919.

4. Apparent Depreciation on United States Government Securities.

   Full provision should be made for apparent depreciation (based on market value) on U. S. Government securities before any amount is transferred to surplus account. No change should be made in the book value of securities, but depreciation allowance should be charged to current net earnings and carried to account "Depreciation reserve on U. S. bonds". Adjustments should be figured on the basis of December 30, 1920 market quotations.

5. Surplus and Franchise Tax.

   After all current expenses, extraordinary charge-offs, and dividend payments have been provided for, the net earnings should be distributed as follows:

   (a) Transfer to surplus account all available net earnings provided the normal surplus account would not as a result exceed the bank's subscribed capital, in which case only such amount should be transferred as is necessary to increase the normal surplus to an amount equal to the bank's subscribed capital.

   (b) Of the balance of net earnings, if any, 10 per cent should be transferred to super-surplus account and 90 per cent paid to the U. S. Government as a franchise tax.

It is the Board's desire that the normal surplus of each Federal Reserve Bank, i.e., the surplus which according to law may reach a maximum equivalent to the bank's subscribed capital, be kept separate on the Bank's books from the "Super-surplus" to be accumulated from net profits retained by the bank after the normal surplus shall have reached 100 per cent of the bank's subscribed capital.

On Form 34 and in all published statements, however, the two accounts, surplus and super-surplus, should be combined under the general heading "Surplus".

Kindly acknowledge receipt.

Very truly yours,

Governor.

(Copy of this letter sent to Chairman of each F.R.Bank.)

FEDERAL RESERVE BOARD

WASHINGTON

December 11, 1920.
St.1642

SUBJECT: Form 50 - Monthly Report of Clearing Operations.

Dear Sir:

Form 50, Monthly report of clearing operations, will be printed instead of mimeographed for use during the forthcoming calendar year, and it is expected that a year's supply thereof will be forwarded to you during the latter part of this month.

The Banks will not be asked to calculate the average daily number and amount of items handled each month during 1921, as has been the case during previous years. A memorandum item has been added, however, against which each Federal Reserve Bank and Branch will be asked to report the number and amount of items sent by member banks in its territory direct to other Federal Reserve banks and their branches. It is requested that arrangements be made so that this additional information may be available beginning with January 1, 1921.

Very truly yours,

R.G.Emerson,
Assistant to Governor.

Letter sent to each Federal Reserve Agent.

FEDERAL RESERVE BOARD

WASHINGTON

December 14, 1920.
St. 1648.

SUBJECT: Holdings of U. S. Securities.

Dear Sir:

Will you kindly furnish the Board, as soon as practicable after December 31, 1920, with a statement showing your holdings of U. S. securities as at the close of business on December 31, 1920, classified in detail in accordance with the table printed on page 132 of the 1919 annual report of the Federal Reserve Board.

Very truly yours,

R. G. Emerson,
Assistant to Governor.

(Letter sent to each Federal Reserve Agent)

FEDERAL RESERVE BOARD

WASHINGTON

December 16, 1920.
St.1653.

SUBJECT: Reports of Paper pledged with Federal Reserve Agents.

Dear Sir:

With a view to decreasing the amount of work and of simplifying records kept by the Federal Reserve Banks and Agents in connection with the pledge, substitution, and release of eligible paper as collateral security for outstanding Federal Reserve notes, you are authorized, beginning with January 1, 1921, to discontinue furnishing the Board with reports on form BD-22, "Schedule of collateral accepted by Agent as security for issuance of Federal Reserve notes".

Effective as of the same date, paper which is pledged with the Federal Reserve Agent immediately after discount or purchase should be reported on schedules BD-4 and BD-7 separate from those covering paper which is not so pledged, and a statement, signed by the Federal Reserve Agent or his assistant, should be typewritten or stamped on such schedules reading substantially as follows:

> "Receipt is acknowledged of $__________ of eligible paper as reported above against items numbered__________ to __________ inclusive, to be held as collateral security against outstanding Federal Reserve notes."

____
Federal Reserve Agent.

In case eligible paper is pledged with the Federal Reserve Agent other than at time of discount or purchase a separate schedule, BD-4 or BD-7 as the case may be, covering such pledge should be submitted to the Board. It will be sufficient if these schedules show the number and amount of each item and the date it was discounted or purchased by the Federal Reserve Bank. The schedules should bear across the top in capital letters a statement to the following effect: "Schedule covering eligible paper pledged with Federal Reserve Agent subsequent to date of discount or purchase."

In authorizing the discontinuance of reports on schedules BD-22, the Board desires to state that the records of both the Bank and Agent must continue to be kept in such manner that there will be no difficulty at any time in determining exactly which bills and notes are under pledge with the Federal Reserve Agent.

Very truly yours,

Governor.

(Copy sent to each Federal Reserve Agent)

FEDERAL RESERVE BOARD

WASHINGTON

December 20, 1920.
St.1660.

SUBJECT: Statistics for use in Federal Reserve Board's Annual Report.

Dear Sir:

For use in connection with the Board's forthcoming annual report, will you kindly have statements prepared covering the following operations of your bank during the calendar year 1920:

1. Number and amount of transfers bought and transfers sold each month: (a) by draft; (b) by telegraph.

2. Number and amount of collection items (non-cash items) handled during the year: (a) number received for collection; (b) number returned unpaid; (c) number collected; (d) amount collected.

3. Number of (a) member banks and (b) clearing non-member banks making use of the clearing and collection facilities of the Federal Reserve Banks, i.e., number of banks forwarding cash items to the Federal Reserve Bank for collection, as of December 31,1919 and 1920.

It will be appreciated if the above data are furnished at the earliest practicable date after January 1.

Very truly yours,

R. G. Emerson,
Assistant to Governor.

(Copy sent to each Federal Reserve Agent)

FEDERAL RESERVE BOARD

WASHINGTON

December 20, 1920.
St.1663.

SUBJECT: Monthly report of Clearing Operations, Form 50.

Dear Sir:

In lieu of the regular monthly report of clearing operations on form 50 for the month ending January 15, 1920, will you kindly furnish the Board with statements showing separately, the numbers and amounts of items handled during the periods December 16 to 31, 1920 and January 1 to 15, 1921, respectively.

Please instruct branches.

Very truly yours,

R. G. Emerson,
Assistant to Governor.

(Copy sent to each F. R. Agent)

FEDERAL RESERVE BOARD

WASHINGTON

December 20, 1920.
St.1664.

SUBJECT: Reports of earnings, expenses and dividend payments for 1920.

Dear Sir:

May we ask that you kindly accompany your regular earnings and expense reports for the month of December with the following additional data for the period January 1 to December 31, 1920:

(1) Statement showing the following information:

(code)			
EACH	Gross Earnings	$_______	
EADS	Total Current Expenses	_______	
EARN	Current Net Earnings		$_______
ELBA	Debits to Current Net Earnings	_______	
ENID	Credits to Current Net Earnings	_______	
	Net debit or net credit to current net earnings		_______
EAST	Net earnings available for dividends, surplus and franchise tax		_______
EYRE	Dividends paid	_______	
EVEN	Carried to normal surplus account	_______	
ERIN	Carried to Super-surplus account	_______	
EMET	Paid to Government as a franchise tax	_______	
	Total		_______

It will be appreciated if the amounts shown opposite items for which code words are given are telegraphed to the Board not later than January 3, 1921.

(2) Itemized statement showing in detail all debits and credits to current net earnings (Profit and Loss account) during the year.

(3) Separate reports on forms 95 and 96 showing, in the second or total columns, earnings and expenses during the entire year. The regular monthly reports on these forms should, of course, show in the second columns the earnings and expenses of your bank from July 1 to December 31, 1920.

Yours very truly,

R. G. Emerson,
Assistant to Governor.

(Copy sent to each F. R. Agent)

FEDERAL RESERVE BOARD

WASHINGTON

December 20, 1920.
St.1665.

SUBJECT: Revised Forms for use during 1921.

Dear Sir:

There is being forwarded to you today, under separate cover, a supply of each of the forms listed below, as revised for use during the calendar year 1921:

200 copies of formX-1078 - Weekly report showing maturity distribution of bills discounted for and purchased from other Federal Reserve Banks.

100 copies of form A - Monthly report of investment operations.

100 copies of form 44 - Monthly report of Federal Reserve notes received, issued, etc., by denominations.

50 copies of form 44a - Monthly report of Federal Reserve notes outstanding and gold held as security.

100 copies of form X-1252a - Monthly report of currency receipts and shipments.

100 copies of form St. 550 - Monthly report of war savings securities sold or exchanged.

100 copies of form St. 552 - Report of payments for each series of loan or tax certificates issued.

Your attention is called to the fact that on revised form X-1252a currency receipts are shown in the first column and currency shipments in the second, i.e., in reverse order from that called for by the present form. It will also be noted that hereafter reports on form St.550 are to be rendered monthly instead of weekly as has been the case in the past, while reports on form St. 552 are to be rendered whenever a new series of tax or loan certificates is issued.

The detailed analyses of subscriptions received to certificates of indebtedness, called for by the Board's letters X-847 and X-1059, dated March 29 and July 12, 1918, need not be furnished in the future as the data desired will be reported on revised form St. 552.

In this connection you are also advised that reports on form X-938, showing Federal Reserve Bank notes received, returned, on hand, etc., by denominations, may be discontinued as of December 31 of this year.

Very truly yours,

R. G. Emerson,
Assistant to Governor.

(Sent to each F. R. Agent)

FEDERAL RESERVE BOARD

WASHINGTON

December 22, 1920.
St.1670.

SUBJECT: Revised Form 105, Condition Report of State Bank and Trust Company Members.

Dear Sir:

There are being forwarded to you today under separate cover by registered mail copies of Form 105, revised as of November 1, 1920.

Please mail three copies of the form to each State Bank and Trust Company member in your district, with instructions to hold the blank forms pending receipt of a call for condition report, when they should be promptly filled out and two copies mailed to you - in no case later than ten days after receipt of the call.

Kindly acknowledge receipt.

Very truly yours,

R.G.Emerson.
Assistant to Governor.

Letter sent to each F.R.Agent.

FEDERAL RESERVE BOARD

WASHINGTON

December 22, 1920.
St.1671.

SUBJECT: Earnings and Dividends reports of State Bank and Trust Company members as of December 31, 1920.

Dear Sir:

There are being forwarded to you today under separate cover copies of form 107 for use of State bank and Trust company members in submitting their semi-annual reports of earnings and dividends.

Please advise the banks that the report is to cover the six-month period ending December 31, 1920, irrespective of whether or not they may have closed their books on that date, or whether any dividends that may have been declared cover that particular period.

The report should be submitted to you in duplicate within ten days after receipt of the blank forms by reporting banks.

Very truly yours,

R. G. Emerson.
Assistant to Governor.

(Copy of this letter sent to Agent of each F.R.Bank)

FEDERAL RESERVE BOARD

WASHINGTON

December 24, 1920.
St.1674.

SUBJECT: Revision of Form 38, Classification of Bill Holdings.

Dear Sir:

There is attached hereto a mimeographed copy of Form 38, Classification of holdings of discounted and purchased bills, as revised for use during the forthcoming calendar year. It will be noted that reports on the new form are to be rendered as of the last day of each month, instead of weekly as at present.

The form is now being printed and a year's supply will be forwarded to you during the early part of January.

Very truly yours,

R. G. Emerson.
Assistant to Governor.

Letter sent to each F. R. Agent.

FEDERAL RESERVE BOARD
Form 38
Revised Dec. 1920.

CLASSIFICATION OF DISCOUNTED AND PURCHASED BILLS HELD BY

THE FEDERAL RESERVE BANK AND AGENT AT ____________,

at close of business on the last day of the month of __________, 192

Bills discounted for member banks and for Federal Reserve Banks:
Secured by U. S. Government obligations -
1. Member banks' collateral notes - - - - - - - - - - - - - - - - $__________
2. Non-member banks' paper endorsed by member banks - - - - - __________
3. Customers' bills and notes - - - - - - - - - - - - - - - - - __________
Otherwise secured and unsecured (including paper partially secured by U. S. Government obligations) -
4. Member banks' collateral notes - - - - - - - - - - - - - - - - __________
5. Agricultural paper - __________
6. Live-stock paper - __________
7. Commercial and industrial paper, n.e.s. - - - - - - - - - - __________
8. Bankers' acceptances -
(a) Foreign (Based on Imports $______ Exports $_______) - - __________
(b) Domestic - __________
(c) Dollar Exchange bills - - - - - - - - - - - - - - - - - - __________
9. Trade acceptances -
(a) Foreign (Based on Imports $_______ Exports $________) - __________
(b) Domestic - __________
10. Total discounted bills - __________

Bills purchased in open market, including purchased bills acquired from other F. R. Banks:
11. Bankers' acceptances -
(a) Foreign (Based on Imports $_______ Exports $_______) - $__________
(b) Domestic - __________
(c) Dollar Exchange bills - - - - - - - - - - - - - - - - - - __________
12. Trade acceptances -
(a) Foreign (Based on Imports $_______ Exports $_______) - __________
(b) Domestic - __________
13. Total bills bought - __________

Classification of purchased bills according to endorsement:
14. Acceptances bearing endorsement of a member bank other than acceptor - $__________
15. Acceptances bearing endorsement of a non-member bank or banker other than acceptor - - - - - - - - - - - - - - __________
(Acceptances bearing endorsement of a non-member bank or banker, in addition to that of a member bank, should be included only with "Acceptances bearing endorsement of a member bank other than acceptor".)
16. Acceptances not bearing the endorsement of any bank or banker - __________
(Acceptances bearing endorsement of acceptor only should be classed as "Acceptances not bearing endorsement of any bank or banker.")
Total - (Should agree with item 13) - - __________

Note - Acceptances purchased from acceptor: (Bankers' - - - - - - __________
(Trade - - - - - - __________
Acceptances bearing endorsement of more than one bank or banker other than acceptor- - - - - - - - - - - - - - - - __________

To be mailed to Federal Reserve Board, Washington, D. C., not later than the tenth of each month. In case complete data are not available, due to schedules in transit, preliminary statement should be mailed and final report rendered when schedules have been received.

St.1485.

FEDERAL RESERVE BOARD

WASHINGTON

December 24, 1920.
St.1676

SUBJECT: 1921 Edition of Form 34,
Daily Balance Sheet.

Dear Sir:

With reference to the daily balance sheet Form 34, the 1921 edition of which is being forwarded to each Federal Reserve Bank and Branch as received from the Government Printing Office, may we ask that the special attention of the Bank be invited to the following changes made in the form:

Code items BAZE and BEDE have been changed so as to represent all paper secured by U. S. Government obligations, instead of paper secured by U. S. war obligations as shown on the present edition of the form. Corresponding changes have been made in the detailed classification appearing on the reverse side of the form.

Several of the code words shown in the "Uncollected Items" block of the present form having been eliminated, the SETL telegram sent to the Board on Saturday morning should show the necessary change in uncollected items against code item BUDA. Other changes resulting from the settlement through the gold fund should be reported against code items BABE, TEND, TEAM, TOTE, CURL and TRAP.

Beginning with January 1 dividends are to be accrued daily and the gross amount reported, in the space provided therefor, as a deduction from current net earnings in order to arrive at the net amount of earnings available for surplus and franchise tax. The amount of such dividends accrued, plus interest received from new members account capital stock requirements, and less dividends paid in the current period on account of the surrender of capital stock, should be shown against item "Accrued dividends unpaid" in the "Miscellaneous Liabilities" block.

Yours very truly,

R. G. Emerson.
Assistant to Governor.

Letter sent to each F.R.Agent.

FEDERAL RESERVE BOARD

WASHINGTON

December 23, 1920.
St.1678.

SUBJECT: Revision of Weekly Report of Gold Receipts and Payments, Form X-1053.

Dear Sir:

There is being transmitted to you today under separate cover for use during the forthcoming year a supply of revised form X-1053, Weekly Report of Gold Receipts and Payments. In order to insure uniformity in reports, may we request that the transactions outlined below be handled in the manner indicated.

Amounts received from and paid to the U. S. Government on account of Federal Reserve notes of other Federal Reserve Banks forwarded for redemption and of notes of reporting bank presented to the U. S. Treasurer for redemption should be shown gross, instead of net as has been the practice of a number of the banks in the past.

All deposits of gold with the U. S. Treasurer for credit in the 5% Redemption Fund held against Federal Reserve Bank notes and for credit to the Redemption Fund accounts maintained by National banks should be shown in the fourth column of the report and special notation made thereof under section two on the reverse side of the form.

Transfers from or to other Federal Reserve Banks through the Gold Settlement Fund for account of the Treasurer of the United States should be reported against items OBEY and PIKE, respectively, and not as receipts from or payments to the U. S. Government.

Gold receipts and payments between the parent bank and its branches should not appear on the report showing receipts and payments by the Head Office and Branches combined, since in combining the figures a receipt would be offset by a payment and would, therefore, not involve any change in the amount of gold held as shown on the combined report.

Very truly yours,

R. G. Emerson.
Assistant to Governor.

Letter sent to each F. R. Agent.

FEDERAL RESERVE BOARD

WASHINGTON

December 27, 1920.
St.1683.

SUBJECT: Form 171, Report of Average Daily Holdings of Earning Assets.

Dear Sir:

There is being forwarded to you today under separate cover, a supply of Form 171 - superseding mimeograph Form 722 - for use in reporting average daily holdings of earning assets, earnings thereon and annual rates of earnings during the calendar year 1921.

Very truly yours,

R. G. Emerson,
Assistant to Governor.

(Letter sent to each F. R. Agent)

FEDERAL RESERVE BOARD

WASHINGTON

December 27, 1920.
St.1685.

SUBJECT: Number of member banks in district on December 31,1920 and number accommodated through discount operations during the year 1920.

Dear Sir:

Will you kindly furnish the Board, as soon as practicable after December 31, 1920, with a statement showing the number of member banks in your district on December 31, 1920, and the number of banks accommodated through the discount of paper during the year 1920, distributed by States, in accordance with the first two columns of table No. 30 printed on pages 166 and 167 of the 1919 annual report of the Federal Reserve Board.

Very truly yours,

R. G. Emerson,
Assistant to Governor.

(Letter sent to each F. R. Agent)

FEDERAL RESERVE BOARD

WASHINGTON

December 28, 1920.
St.1689.

SUBJECT: Statistics of Fiscal Agency Operations for use in Federal Reserve Board's Annual Report.

Dear Sir:

For use in connection with the Board's forthcoming Annual Report, will you kindly have a statement prepared showing the following data relating to fiscal agency operations of your bank during the calendar year 1920:

1. Number of banks subscribing to certificates of indebtedness (no bank to be counted more than once).

2. Total amount of certificates of indebtedness redeemed.

3. Total number and amount of interest coupons redeemed: (a) account Liberty bonds and Victory notes; (b) account certificates of indebtedness.

4. Exchanges and conversions of Liberty bonds and Victory notes: (a) Temporary Bonds exchanged for permanent bonds: Number - Amount. (b) Permanent Bonds and Victory notes exchanged and / or converted: Number - Amount.

   The sum of the numbers and amounts reported against items (a) and (b) should represent the total number and amount of Liberty bonds and Victory notes exchanged or converted during the year.

5. Number and amount of war savings securities sold and redeemed during the year: (a) Treasury savings certificates: sold-redeemed; (b) War savings certificate stamps: sold-redeemed; (c) Thrift stamps sold - redeemed.

6. Number of special war loan depositaries in district at end of year.

7. Amount of securities pledged against war loan deposits as of the end of each month: (a) Amount held in own vaults; (b) Amount held by outside custodians.

8. Number of custodians of collateral for war loan deposits at end of year.

It will be appreciated if the above data are furnished at the earliest practicable date after January 1.

Very truly yours,

R. G. Emerson,
Assistant to Governor.

(Letter sent to each F. R. Agent)